Kay
Please set up a desk file on the "Arctic" problem JEA

MINUTES

ARCTIC MEETING, MAY 16, 1974

9:00 a.m. to 4:30 p.m., 711-C Central Office

ATTENDEES:

D.R. English	J.E. Akitt (part time)
B.G. Rosser	J.A. Lefebvre
C.E. Langston	R.F. Roblin
J.M. Drolet	J. Lyons - Transportation (part time)
G.J. Lindsey	A.L. Peterson Transportation (part time)
E. Desnoyers	
G.E. Sorli (part time)	

OBJECTIVES

Communication of 1974 Arctic activities.

Course of action on some specific issues.

Clarification of responsibilities.

Future Arctic involvement.

Resolutions.

PRESENTATIONS

Western, Quebec and Ottawa Industrial Division representatives made presentations concerning their respective responsiblities and areas of concern.

Central Office presented the present supply/demand balance, pricing and 1974 sea lift co-ordination requirements.

Messrs. A.L. Petersen and J. Lyons presented the capital requirements in the Western Arctic for future growth and environmental requirements. Future growth excluded Arctic Gas Line construction volumes.

RESOLUTIONS

1. Region Responsibilities - Sales coverage/purchase orders.
   - Arctic demands identified in Near Term Plan
   - Long term demand forecast.

2. Central Office Responsibilities
   - Supply/demand/sea lift co-ordination.
   - Pricing - particularly when more than one government is purchasing the same product delivered at the same time.
   - Churchill/Goose Bay Audits - accurate inventory levels during audit period.
   - Profitability studies - i.e., Churchill.

3. Sales Credit - Eastern High Arctic Supply ex Import or Montreal - Quebec Sales Credit.
   - Exception - Resolute - Western Sales Credit.
   - Ex Churchill - Western Sales Credit.

4. Communications - Western Region - B.G. Rosser/R. Bush.
   - Ottawa - C.E. Langston/J.M. Drolet.
   - Quebec Region - G.J. Lindsey/E. Desnoyers.
   - Central Office - R.F. Roblin - Eastern Arctic.
   - J.A. Lefebvre - Western Arctic.

5. Imperial's posture at Churchill 1975 - Western Region, Ottawa and R.F.Roblin.

6. Imperial's posture at Goose Bay 1975 - Central Office Aviation, Ottawa and R.F. Roblin.

7. Imperial's posture 1975 East Coast Hudson Bay. - Quebec Region - Presently supplie by Shell.

8. Comptroller's Contract - Western - R. Clisdale.
   - Quebec - M. Ajram.

9. Federal Government Pricing - Region Responsibility with Co-ordination with Central Office.

10. Federal Government Lube Pricing - presently Central Office.
    - Regions wish participation. R.F. Roblin will develop this with H.F. Yeomans.

11. Western Arctic Capital Investment - Pricing action required to ensure adequate return on present and future investments - J.A. Lefebvre/B.G. Rosser.

12. Future Arctic Meetings - A second meeting after the 1974 sea lift.

R.F. Roblin

Minutes By - R.F. Roblin.

cc: G.E. Fullerton - Edmonton
A. Bomben - Montreal
Attendees

J.E. Akitt

IMPERIAL OIL LIMITED

MARKETING DEPARTMENT

Vice President & General Manager
WILLIAM A. WEST
Assistant General Managers
JOHN E. AKITT
CHARLES A. HAYLES
GEORGE R. WISENER

111 St. Clair Avenue West, Toronto, Canada M5W 1K3

May 29, 1974.

Ref: N-7945-103-11

Mr. F.J. Joyce,
Director,
Northern Natural Resources and
Environment Branch,
Department of Indian and
Northern Affairs,
Centennial Tower,
OTTAWA, Ontario.

Dear Sir:

Thank you for your letter of April 24, 1974, to Mr. George Brydon authorizing price changes in the Norman Wells supply area.

I would like to apologize for the delay in replying to your letter which only reached my desk on May 15. Mr. George Brydon has retired from the Company and I will be assuming his responsibilities in regard to the Northwest Territories supply of petroleum products.

As indicated in our telex of May 27, the one cent increase to "small customers" (individuals or accounts having an annual consumption of less than 10,000 gallons) will be made effective June 1, 1974 coincident with the approximate start of MacKenzie River navigation season. At the same time, adjustments will be made to recover the May 15, 1974 Canada Sales Tax increase and the fluctuation in barge rates. The attached Schedule A indicates the ramifications of approved price changes including the new tax and changes in freight costs from Norman Wells to points of sale.

Cont'd.....

Mr. F.J. Joyce

May 29, 1974.

In accordance with, 1) the principle that Norman Wells industrial end-use products carry a price compelled and limited by the going Edmonton industrial prices plus bridging, 2) the stated intention to review results by this pricing action annually, Imperial will be increasing prices to large consumers (> 10,000 gallons) on contract rollovers as indicated on Schedule B. You will notice that the increases are significantly different than those discussed in Mr. A.B.Yates letter of April 19, 1973 to Mr. George Brydon. The main variations are explained by higher bridging costs (railway and barge rates), changes in Edmonton postings, fluctuation in C.S.T. and other market conditions. The posted prices in Western Canada increased by 10.2 to 11.0¢/gallon since April 1973.

Since the accepted plan is to phase out the two price system for industrial/commercial accounts - Edmonton vs Norman Wells supplied-as rapidly as practical the proposed 1974/1976 implementation time frame, appears fair and reasonable. The price increases are substantially higher in the first two years and cover most of the May 16 price advance and the unrecovered portion of the 1973 price move approved by the Minister. The three year plan is recommended so when the full impact of Southern pricing affects Northern accounts the differential will not be too great. You will notice that we have voluntarily extended the price plan from 1975 to 1976.

The N.C.P.C. price constraint set forth in item 6 of your letter is most disconcerting. At your convenience, I would like to review with you in Ottawa our points of view regarding this subject.

The suggested N.C.P.C. price of 12.7¢/gallon for Norman Wells Bunker is substantially lower than prices anywhere else in Canada and the 2.0¢/gallon increase is small in comparison with the Heavy Fuel Oil price increase of 8.3¢/gallon recently implemented in the domestic crude circuit. You have indicated that the current Heavy Fuel Oil price of 10.7¢/gallon reflects a three cent or 39% increase in the price of Bunker sold to N.C.P.C. in 1972. This increase does not seem unrealistic when we consider what has happened to the price of energy in the world market. In Edmonton the Heavy Fuel Oil price has increased 27% in 1973 and the 8.3¢/gallon represents a change of 65% this year to date. The 2.0¢/gallon or a 19% increase suggested for Norman Wells production is moderate considering that Heavy Fuel Oil is currently underpriced in the Northwest Territories.

Cont'd.....

Mr. F.J. Joyce

May 29, 1974.

Last year Heavy Fuel Oil represented approximately 20% of the product sold from Norman Wells operation. According to the Federal Government approved petroleum products pricing formulae Heavy Fuel Oil should bear its part of the cost increment in a total petroleum operation. On that basis, the price of Norman Wells Heavy Fuel Oil should be well in excess of the recommended 12.7¢/gallon. The pricing of Heavy Fuel Oil has a direct bearing on prices of other petroleum products and if it is kept too low, overheads will have to carry an unreasonable portion of the refining and other operation costs. In order that each part of the barrel absorbs its proper share of the production, refining and marketing burden, we ask that you reconsider your decision and allow for an increase on N.C.P.C. Heavy Fuel Oil requirement.

Before closing, I would like to point out that other guidelines stipulated under items 3 and 4 in your letter are quite acceptable and will be communicated to all those concerned in our Corporation.

I am looking forward to meeting you and hope that all pending issues will be resolved to our mutual satisfaction.

Yours very truly,

J.E. Akitt,
Assistant General Manager,
Wholesale.

JEA/jd

cc: G.A. Fullerton, Edmonton
R. Horsfield, Edmonton
L.G. Ahrens, Room 1838
D.E. Smith, Room 1651
G.E. Sorli, Room 1814

SCHEDULE A

SMALL CONSUMER PRICES

NORMAN WELLS PRODUCTS

¢/Gallon

	Price Approved June 1, 1974	May 15, 1974 Change C.S.T.	Barge Rate Increase	Price Effective June 1, 1974
AKLAVIK				
Esso Gasolines	33.4	0.6	0.5	34.5
Esso Diesel Fuel P-40	31.8	0.3	0.6	32.7
Esso Diesel Fuel P-50	32.8	0.3	0.6	33.7
Esso Heating Oil P-40	30.0	-	0.6	30.6
Esso Heating Oil P-50	31.0	-	0.6	31.6
INUVIK				
Esso Gasoline	33.6	0.6	0.5	34.7
Esso Diesel Fuel P-40	32.1	0.3	0.6	33.0
Esso Diesel Fuel P-50	33.1	0.3	0.6	34.0
Esso Heating Oil P-40	30.3	-	0.6	30.9
Esso Heating Oil P-50	31.3	-	0.6	31.9
NORMAN WELLS				
Esso Gasoline	27.0	0.6	-	27.6
Esso Diesel Fuel P-40	24.6	0.3	-	24.9
Esso Diesel Fuel P-50	25.6	0.3	-	25.9
Esso Heating Oil P-40	22.8	-	-	22.8
Esso Heating Oil P-50	23.8	-	-	23.8

Imperial Oil Limited
Toronto, Ontario
May 29 , 1974

SCHEDULE B

INDUSTRIAL PRICES

NORMAN WELLS PRODUCTS

¢/Gallon

	MAY 31/74	JUNE 1/74	JUNE 1/75	JUNE/76
INUVIK				
Esso Avgas 100/130	66.0	72.8	79.6	80.9
Esso Turbo B	47.2	56.0	64.8	66.6
Esso Gasoline	42.9	53.0	63.1	65.1
Esso Diesel Fuel P-40	40.4	51.1	61.8	64.0
Esso Diesel Fuel P-50	41.4	52.1	62.8	65.0
Esso Heating Oil P-40	37.7	48.7	59.7	61.9
Esso Heating Oil P-50	38.7	49.7	60.7	62.9
NORMAN WELLS				
Esso Avgas 100/130	57.5	65.0	72.5	73.9
Esso Turbo B	39.4	48.6	57.8	59.6
Esso Gasoline	36.1	46.1	56.1	58.1
Esso Diesel Fuel P-40	33.1	43.5	53.9	56.0
Esso Diesel Fuel P-50	34.1	44.5	54.9	57.0
Esso Heating Oil P-40	30.4	41.2	52.0	53.9
Esso Heating Oil P-50	31.4	42.2	53.6	54.9

Diesel Fuel LS)
Diesel Fuel Heavy X) To Be Reviewed Separately
Fuel Oil C)

AKLAVIK Prices are below Inuvik, as follows:-

- Esso Gasoline 0.2
- Diesel & Heating 0.3
- No Avgas 100/130 /Turbo-B

Increases will be reviewed annually in light of going Edmonton industrial prices.

IMPERIAL OIL LIMITED
Toronto, Ontario.
May 29, 1974.

Indian and Northern Affairs

Affaires indiennes et du Nord

org'l to RFR 3/8/76 P.U.

Mr. J.E. Akitt,
Assistant General Manager, Wholesale,
Imperial Oil Limited,
111 St. Clair Avenue West,
Toronto, Ontario,
M5W 1K3.

OTTAWA, ONTARIO
K1A OH4
June 5, 1974

Your file Votre référence

Our file Notre référence

RECEIVED
JUN 11 1974
J. E. AKITT

Dear Mr. Akitt:

Thank you for your letter of May 29, 1974 in which you indicate the manner Imperial will implement the price increases for Norman Wells products recently approved by this Department.

You will understand, I'm sure, that even though that approval is prepared in this Branch and ultimately signed by me, it is concurred in, in all its detail, by my Minister. For that reason I would note that there is no leeway at least in the marketing year, to vary the price constraint imposed on Norman Well Bunker sold to N.C.P.C. You might wish, however, to continue negotiations on that point of issue with N.C.P.C. direct and depending upon the outcome of those discussions, we could appropriately review the matter later this year. In any case, the matter ultimately would need be placed before the Minister, probably direct by senior officials of your Company as has been done on former occasions.

Yours sincerely,

F.J. Joyce,
Director,
Northern Natural Resources
and Environment Branch.

Mr. J.E. Akitt.

For your information.
Do you have any comments.
Jacques.

J.A. LEFEBVRE

PRODUCT ADVISOR

RG 195–74

NORTHWEST TERRITORIES

WORK PLAN

HASE A ITEMS	DEADLINE	RESPONSIBILITY
. Calculate the bridging costs for product movement from Edmonton to Norman Wells, Inuvik and Aklavik. done	May 22	B.G.R., J.A.L. Transp.
. Compute the increase in barge rates from Norman Wells to Inuvik and Aklavik. done	May 22	J.A.L., Transp.
. Prepare arguments backing Heavy Fuel Oil increase in Northwest Territories. done	*May 22 June 12	J.A.L. J.E.A., G.A.F. J.A.L.
*(first pass only - to prepare reply to Government's April 24 letter).		
4. Decide on price schedule for Norman Wells industrial end-use products. done	May 23	J.E.A., G.A.F.
5. Advise DIANA re price plan for "Small Consumers" and for industrial/commercial accounts supplied from Norman Wells. done	May 24 May 31	J.E.A., J.A.L.
6. Inform DIANA of intention to renegotiate N.C.P.C.'s Heavy Fuel Oil price. done	May 31	J.E.A., J.A.L.
7. Prepare Price Change Applications - small accounts - Norman Wells industrial end-use products. done	May 23 May 28	R.D.M., J.A.L. R.D.M., J.A.L.
8. Advise Public Affairs re price move to "Small Consumers". done	May 27	J.A.L.
9. Send to DIANA notice of at least three working days in regard to the content of public announcement (if required). not required	May 28	J.E.A., J.A.L.
10. Set meeting with DIANA to discuss the price of Heavy Fuel Oil and arrive at a mutually acceptable agreement.	June 10	J.E.A.
11. Communicate 1974 new pricing structure to business lines done -	May 31	J.A.L.
12. Field trip.	June 2-7	J.A.L.

PHASE B

1. Determine volumes sold at, and north of, Norman Wells by type of accounts and by supply source.	June 14	B.G.R., G.L.M., J.A.L.
2. Determine sales revenue costs, by customer segment, by supply source.	June 14	B.G.R., G.L.M., J.A.L.
3. Evaluate appropriateness of June 1/74 pricing structure in light of data developed in items 1 and 2.	June 28	B.G.R., J.A.L.
4. Prepare new price plan for presentation to DIANA	July 19	B.G.R., J.A.L., G.A.F.

ITEMS	DEADLINE	RESPONSIBILITY
tain the 1973 Norman Wells R.O.C.E.	June 14	G.L.M.
Review current approach of determining well-head crude value.	June 28	G.L.M., J.A.L.
If suspect anomaly exists in crude value calculation, offer alternative.	July 19	J.A.L.

M E M O R A N D U M

MARKETING DEPARTMENT

RECEIVED
JUN 13 19
J.E. AKITT

June 12, 1974.

Automotive Prices
Norman Wells Production

Mr. B.G. Rosser,
Edmonton

You will note on the table below that our pricing structure at Aklavik, Inuvik and Norman Wells can potentially incite industrial customers to purchase their diesel and gasoline requirements through the Automotive channel.

Example of Inuvik Pricing	¢/Gal. Consumer	Automotive	*Industrial
Esso Gasoline	34.7	33.2	53.0
Esso Diesel (P-40)	33.0	41.9	51.1

*Industrial prices for accounts supplied with Norman Wells products.

Allowing for a dealer's margin, the Automotive prices are sufficiently low to attract industrial accounts.

Please advise if my concern is justified and if we have the proper mechanism in place to prevent the drifting of industrial accounts to the Automotive market segment. An effective control is required if the two-price system for Norman Wells production is to generate the desired return on investment.

J.A. Lefebvre.

JAL/jd

cc: J.E. Akitt, Room 1815

RECEIVED
JUN 1? 1974
J. E. AKITT

M E M O R A N D U M

MARKETING DEPARTMENT

June 13, 1974.

Price Change - Aklavik, Inuvik, Norman Wells

Mr. B.G. Rosser,
Edmonton

We received today, final approval from DIANA to hike our prices on Norman Wells industrial end-use products at Aklavik, Inuvik and Norman Wells. The accepted prices were those which we developed and presented to the Federal Government.

Following last year's procedure, we will not publish industrial prices for Norman Wells products. They will be kept by yourself and K.B. D'Arcy of our Pricing Group for reference purposes. In other words, no industrial price list will be distributed to the field for the subject three locations.

We would also like to point out that the Turbo-B and Avgas prices at Inuvik are to be disregarded totally. All the Avgas and 60-70% of the Turbo sold in Inuvik come from Strathcona. On this basis, we are developing more realistic prices recognizing product source. These will be communicated to you shortly.

You will note on the enclosed copy of the Government's letter that DIANA has refused to let us implement a price increase on Norman Wells' HFO sold to N.C.P.C. Mr. F.J. Joyce suggests that we persue our negotiations with N.C.P.C. directly. This issue will be developed with Messrs. J.E. Akitt and G.A. Fullerton.

We enclose for your convenience, a copy of the approved industrial price for Norman Wells' products and a copy of DIANA'S letter.

J.A. Lefebvre.

JAL/JD
Attach.

cc:	J.E. Akitt	Room 1815	N/A
	G.A. Fullerton	Edmonton	W/A
	L.G. Ahrens	Room 1838	W/A
	D.E. Smith	Room 1651	N/A

June 12, 1974.

essrs. J.E. Akitt
G.E. Sorli

For your information.

J.A. Lefebvre.

Jun A Bay C Tuktoyaktuk

NORTHWEST TERRITORIES - FIELD TRIP

JUNE 2 - 7, 1974

SUMMARY

SCHEDULE:

June 2 - Toronto to Edmonton

June 3 - Edmonton, Inuvik, Bar-C (Tununuk)

June 4 - Bar-C, Tuktoyaktuk

June 5 - Drilling rigs: Pullen Island, Moyagiak, Atkinson Point, Tuktoyaktuk, Norman Wells, Yellowknife

June 6 - Yellowknife, Fort Smith, Edmonton

June 7 - Edmonton, Toronto

Time was mostly spent at Bar-C, Tuktoyaktuk, Inuvik and Yellowknife.

HIGHLIGHTS:

1. Review of Norman Wells files, programs, work plan and pending issues.

2. Understanding of distribution network and inherent difficulties of northern operations.

3. Worthwhile meeting with N.W.T. people at Yellowknife - Bob Loftus, Bill Enge.

4. Meeting with agent at Inuvik and Yellowknife.

5. Visit of storage facilities at Bar-C, Tuktoyaktuk, Pullen Island, Inuvik and Yellowknife.

6. Lube clinics at Tuktoyaktuk and Tununuk.

ORTHWEST TERRITORIES FIELD TRIP

Follow-up Items

1) Determine if the Norman Wells production covers the "small consumers", Government agencies and Crown corporations total petroleum demand. (B.G.R.)

2) Calculate the effect of cancelling N.C.P.C.'s HFO price increase on the value of overheads sold to "small consumers". If N.C.P.C. refuse to pay the higher price, loss revenue should be recovered from the "small consumers" market segment. (J.A.L.)

3) Obtain for Territory 824 a computer print-out which will group accounts and provide volumetric and financial data on a basis consistent with our existing pricing build-ups. The report should be printed monthly or quarterly with 12 months rolling totals. (B.G.R.)

4) Determine HFO cost from the Red Book using the Federal Government price-freeze cost allocation formulae. (J.A.L.)

5) Obtain, within the coming week, up-to-date volumetric information on Baffin Island product requirement. The data should be most accurate otherwise N.W.T. will incur a shipping penalty. (B.G.R.)

6) Develop with the Aviation group Turbo prices for P.W.A. in Inuvik and use same for industrial operators. The prices should be Edmonton compelled since 70 to 75% of the product is supplied from Strathcona. The N.W.T. Government was informed of our intention. (J.A.L.)

7) Set a meeting with Ottawa to review prices tendered on Eastern Arctic resupply. Because of the reduced F.O.B. prices in the Caribbean, we should lower our price offer. On the other hand, DIANA will be advised that no subsidy is expected on imported finished product movement to the North.

8) Meet with the N.W.T. Government to discuss the 1975 Eastern Arctic supply program. We should be considering moving more domestic product in Eastern Arctic. Also, N.W.T. will be looking to Imperial for supplying locations which were previously serviced by Shell. Imperial and Federal marine divisions should be involved in the discussions

9) Indicate to N.W.T. and Federal Government Imperial's stance in regard to the Churchill operation. N.C.P.C. is trying to obtain control of the Churchill terminal. N.W.T., however, would prefer the status quo or a N.W.T. operation. The Churchill profit and loss statement becomes a priority item.

10) Study the possibility of supplying Belcher Island in James Bay from Moosonee. Hudson Bay Company has a barge in the area which could move product to the settlement.

11) Review the Avgas pricing structure in N.W.T. Since these aviation products, except to Norman Wells, are all supplied from Strathcona, prices should reflect Edmonton market values plus full bridging costs . In Norman Wells itself, 40% of the Avgas is brought from Edmonton and pricing, therefore, should be a weighted average of Norman Wells and Edmonton plus bridging product costs.

Follow-up Items (Cont'd.)

12) Evaluate the effect of tank truck support on our Yellowknife posted price structure. Prices at this location appear to be too low by as much as 4.0¢/gallon. Imperial must apply to the Government for an immediate price adjustment.

13) Reassess posted prices at Fort Simpson. A price advance of 4 to 6¢/gallon might be needed to render this terminal profitable.

14) Determine the price level desired at Aklavik for generating a reasonable return on our investment. Imperial should ask DIANA to either buy our Aklavik facilities or authorize a step-wise price increase which would make this operation profitable.

J.A.L.
June 10, 1974.

/

MEMORANDUM

MARKETING DEPARTMENT

June 18, 1974.

Avgas and Turbo Prices
Inuvik/Norman Wells

Mr. B.G. Rosser,
Edmonton

Aviation prices at Inuvik and Norman Wells had to be reviewed inasmuch as a high percentage of the aviation bulk products come from Edmonton.

The steps taken to correct the pricing anomalies are described in the following paragraphs.

INUVIK - TURBO-B

1. The posted price was withdrawn.

2. The price to the dealer and four local operators on Shell Lake will be as indicated on the Norman Wells product pricing schedule sent to DIANA. This price is 56.0¢/gallon. The logic is that we will reserve the Norman Wells production for small local consumers and for the dealer.

3. The price to P.W.A. and other industrial transient operators will be 64.5¢/gallon which was derived by weight averaging the Norman Wells and Edmonton product costs at Inuvik.

   a) - 20% of Norman Wells production available for serving this segment.

      - .20 x 56.0¢/gallon (price for Norman Wells Turbo at Inuvik). 11.2¢/gallon

   b) - 80% of requirement supplied from Edmonton

      - Edmonton compelled price at Inuvik - 66.6¢/Gallon

      - 0.80 x 66.6¢/gallon 53.3¢/gallon

      64.5¢/gallon

Cont'd...

B.G. Rosser June 18, 1974.

INUVIK - AVGAS

1. Posted prices were withdrawn.

2. All Avgas 100/130 sold in Inuvik is processed in Edmonton and must, therefore, be priced accordingly. The actual Edmonton compelled price is 80.9¢/gallon. It was felt that since it represented such a large increase over the 1973 price of 66.0¢/gallon, we would compile a new price structure as follows:

a) 1973 Norman Wells price		66.0¢/gallon
b) Edmonton posted price increases since the establishment of the 1973 price		
	. May 10/73	1.6 "
	. August 21/73	1.0 "
	. May 16/74	9.6 "
		78.2¢/gallon

The foregoing price provides a relief of 2.7¢/gallon to Avgas customers.

3. The price of 80/87 will be lower than Avgas 100/130 by the normally used differential.

NORMAN WELLS - TURBO - B

1. The price will remain posted at 48.6¢/gallon which is the June 1, 1974 approved Turbo-B price for Norman Wells production.

2. The price applies to all customers insofar as all Turbo-B sold at Norman Wells is processed locally.

NORMAN WELLS - AVGAS

1. The posted prices were withdrawn.

2. Avgas 100/130 prices to all buyers (except those on contract with special escalators) will pay 68.5¢/gallon. The price was calculated in this manner:

a) - 61% of the product is delivered from Norman Wells	
- .61 x 65.0¢/gallon(price of Norman Wells Avgas approved June 1, 1974)	39.7¢/gallon
b) - .39 x 73.9¢/gallon(price of Edmonton product)	28.8¢/gallon
	68.5¢/gallon

3. Price of 80/87 will be established by using the standard differential.

Cont'd...

B.G. Rosser June 18, 1974.

We do not foresee any opposition to the implementation of the above prices. If, however, you do hear of local customer complaints, we would appreciate receiving an immediate report.

JAL/jd

J.A. Lefebvre.

cc: J.E. Akitt Room 1815
G.A. Fullerton Edmonton
L.G. Ahrens Room 1838

June 24, 1974.

Mr. J.E. Akitt,
Room 1815

As suggested, I have sent a note to Mr. F.J. Joyce suggesting that we hold a meeting in the relatively near future. I have posted the letter under your signature.

Jacques

RECEIVED
JUN 26 1974
J. E. AKITT

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N.C.P.C.

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IMPERIAL OIL LIMITED

MARKETING DEPARTMENT

Vice President & General Manager
WILLIAM A. WEST

Assistant General Managers
JOHN E. AKITT
CHARLES A. HAYLES
GEORGE R. WISENER

111 St. Clair Avenue West, Toronto, Canada M5W 1K3

June 24, 1974.

Mr. F.J. Joyce,
Director,
Northern Natural Resources and
Environment Branch,
Dept. of Indian and Northern Affairs,
Centennial Tower,
OTTAWA, Ontario.

Dear Sir:

You suggested in your letter of June 5, 1974, that we persue our negotiations with N.C.P.C. on the price of Heavy Fuel Oil and, depending upon the outcome of our discussions, examine the issue with the Ministry later this year.

We understand now that our field unit has obtained N.C.P.C.'s approval to raise the Heavy Fuel Oil price by 1.0¢/gallon and, therefore, we are looking forward to meeting with you and other senior members of your Department to review potential implementation problems and near term implications. We would also appreciate the opportunity of discussing our point of view directly with the Minister.

The desired meeting could also serve the purpose of opening discussions on other relevant topics, such as:

1) Review of Imperial's Northern supply position.

2) Effect of inflating cost on Yellowknife and Fort Simpson operation.

3) High cost, low return of the Aklavik terminal, etc.

Tremendous benefits will accrue from regular and open problem solving exchanges related to the northern petroleum distribution network. To ensure long term economical supply for the North, we acknowledge an obligation to keep you informed of difficulties facing our industry and more particularly, our Company. We must work with your Department in trying to develop meaningful solutions to arising supply or distribution constraints.

Cont'd

IMPERIAL OIL LIMITED

MARKETING DEPARTMENT

Vice President & General Manager
WILLIAM A. WEST

Assistant General Managers
JOHN E. AKITT
CHARLES A. HAYLES
GEORGE R. WISENER

111 St. Clair Avenue West, Toronto, Canada M5W 1K3

June 24, 1974.

Mr. F.J. Joyce,
Director,
Northern Natural Resources and
Environment Branch,
Dept. of Indian and Northern Affairs,
Centennial Tower,
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1) Review of Imperial's Northern supply position.

2) Effect of inflating cost on Yellowknife and Fort Simpson operation.

3) High cost, low return of the Aklavik terminal, etc.

Tremendous benefits will accrue from regular and open problem solving exchanges related to the northern petroleum distribution network. To ensure long term economical supply for the North, we acknowledge an obligation to keep you informed of difficulties facing our industry and more particularly, our Company. We must work with your Department in trying to develop meaningful solutions to arising supply or distribution constraints.

Cont'd...

Mr. F.J. Joyce June 24, 1974.

We recognize that because of the upcoming election and vacation season, attempts to schedule a meeting at this time might prove to be futile and hence we will be following up on this matter in mid-July. In the meantime, if you disagree with our suggestion or have an alternate proposition, we will appreciate hearing from you.

Yours very truly,

J.E. Akitt/

JEA/jd

J.E. Akitt,
Assistant General Manager,
Wholesale.

bcc: G.A. Fullerton, Edmonton

Indian and Northern Affairs / Affaires indiennes et du Nord

Orig'l to J.A. Lefebvre
July 2/74
B.A.

Mr. J.E. Akitt,
Assistant General Manager,
Wholesale,
Imperial Oil Limited,
111 St. Clair Avenue West,
Toronto, Ontario,
M5W 1K3.

Ottawa, Ontario, K1A OH4
June 28, 1974

Your file Votre référence

Our file Notre référence

Dear Mr. Akitt:

Thank you for your letter of June 24, 1974 concerning a possible escalation of the price of Heavy Fuel Oil purchased by NCPC by 1.0¢/gallon and a meeting with the Minister and senior Departmental officials to further review pricing of other Norman Wells Products.

As you have recognized, it is not practical to consider these matters at this time. However, we will prepare to brief our Minister on relevant items in July and will then contact you concerning appropriate arrangements for meeting with Imperial officials.

Yours sincerely,

H.W. Woodward

F.J. Joyce,
Director,
Northern Natural Resources
and Environment Branch.

MEMORANDUM

MARKETING DEPARTMENT

RECEIVED
JUL 2 1974
J. E. AKITT

July 2, 1974.

Norman Wells - Heavy Fuel Oil

Mr. P.J. Fenton,
Room 1412

The management of our Division will be meeting with the Department of Indian and Northern Affairs to discuss, amongst other topics, the price of Norman Wells Heavy Fuel Oil.

One argument that we want to pursue is related to product cost and your assistance is solicited to develop back-up data.

Under the assumption that each component of a barrel of crude must support its fair share of the producing and refining cost, we would like to know what portion of the Norman Wells operating expenses should be allocated to Heavy Fuel Oil. The crude value will be added to the apportioned expenses in computing the unit cost of Heavy Fuel Oil.

As discussed, all data used for the purpose of deriving this Heavy Fuel cost must be consistent with the Norman Wells Red Book.

I would appreciate receiving your reply within the next two weeks. If my request is not totally clear, please advise.

JAL/jd

J.A. Lefebvre.

cc: J.E. Akitt, Room 1815
G.A. Fullerton, Edmonton
W.G. Waterbury, Room 610

M E M O R A N D U M

MARKETING DEPARTMENT

July 8, 1974.

Norman Wells Operations
R.O.C.E.

Mr. J.E. Akitt,
Room 1815

The enclosed table summarizes the profit position of Norman Wells operation for the years 1967 to 1973.

You will note under section B, Imperial Corporate Results of Operations - P/L, that the 1973 return on capital employed leaped to 8.2% from 6.0% the previous year.

I have asked Comptroller's to give us a complete analysis of the ways and means used for compiling the crude value at the wellhead in Norman Wells. According to the Red Book, crude value has increased by the surprising amount of $1.14/B over 1972. The higher value is due to improved postings but, to a large extent it also reflects the higher prices received for Edmonton based products sold in N.W.T.

Comptroller's inform us that the crude price is the sales value of products made from Norman Wells crude netted back to the wellhead. In actual fact, however, because they are using the FIFO system in establishing product sales values the crude value in the Red Book is more representative of an average sales value of products processed at both Norman Wells and Edmonton. This accounting procedure results in a higher payment to the government for their share of crude than they would be entitled to if only Norman Wells based products were used. It also gives a distorted portrayal of Norman Wells profit position.

I am hoping that Comptroller's will be able to clear the issued by early August. I will keep you informed.

JAL/jd

J.A. Lefebvre.

cc: W.P. Moher Room 1851 W/A
G.L. Munro Room 646 "

CONTRACT FILE NC-34

NORMAN WELLS OPERATIONS 1967-1973

	1967	1968	1969	1970	1971	1972	1973
A. NORMAN WELLS RED BOOKS							
1. Gross Realization from Profits Sold	$3,610,664	$4,702,981	$4,644,411	$4,224,207	$4,065,095	$6,494,918	$6,354,548
2. Resultant Crude Oil Evaluation - Note (1)	0.7785	1.2066	0.6937	1.3713	1.52845	1.0788	2.3263
3. Gross Oil Production							
Production - Bbls	684,179	753,692	790,276	846,003	939,151	890,067	962,733
$/Bbl.	0.7785	1.2066	0.6937	1.3713	1.52845	1.0788	2.3263
Value	532,633	909,284	548,213	1,160,124	1,435,445	960,204	2,239,606
4. Gross Gas Production							
Production - MCF	40,585	42,602	43,723	81,939	299,204	351,596	276,953
$/MCF	0.42	0.42	0.42	.042	0.413	0.4145	0.4183
Value	17,055	17,979	18,539	34,287	123,566	145,727	115,845
5. Total Value of Crude Oil and Gas Produced	549,688	927,263	588,882 (2)	1,194,411	1,559,011	1,105,931	2,355,451
6. Producing Costs - Operating and Development	259,970	830,060	553,131	492,446	502,733	925,832	797,017
7. Government 1/3 Share							
1/3 Value of Oil and Gas produced	183,230	309,087	196,293	398,137	519,671	368,644	785,150
Add 5% Roy. on Imp. 2/3 Share	18,322	30,909	19,630	39,814	51,967	36,864	78,516
(Less) 1/3 Producing Costs	(86,657)	(276,686)	(184,377)	(164,148)	(167,577)	(308,611)	(265,673)
(Less) 10% Management Fee on 1/3 Producing Costs	(8,666)	(27,669)	(18,438)	(16,415)	(16,771)	(30,941)	(26,588)
Total	106,229	35,641	13,108 (3)	257,388 (3)	387,290	65,956	571,405
8. Imperial 2/3 Share							
2/3 Value of Oil and Gas Produced	366,458	618,176	392,589	796,274	1,039,340	737,287	1,570,301
(Less) 5% Royalty	(18,322)	(30,909)	(19,630)	(39,814)	(51,967)	(36,864)	(78,516)
(Less) 2/3 Producing Costs	(173,313)	(553,374)	(368,754)	(328,298)	(335,155)	(617,221)	(531,344)
Add 10% Government Management Fee on 1/3 Producing Costs	8,666	27,669	18,438	16,415	16,771	30,941	26,588
Add (Less) Inventory Adj.	38,443	(33,630)	12,459	(10,313)	(47,891)	54,943	(112,610)
Total	221,932	27,932	35,102	434,264	621,098	169,086	874,419
B. IMPERIAL CORPORATE RESULTS OF OPERATIONS - P&L							
1. Earnings Before Tax							
Imp. 2/3 share	221,932	27,932	35,102	434,264	621,098	169,086	874,419
Add (Less) Cap. Expenditure	289,000	894,000	613,000	422,000	298,000	968,000	601,000
(Less) Depreciation	(20,000)	(20,000)	(26,000)	(29,000)	(38,000)	(93,000)	(112,000)
(Less) Gen. Exp. & Admin.	(124,000)	(118,000)	(147,000)	(149,000)	(183,000)	(214,000)	(206,000)
Earnings Before Tax	367,000	784,000	475,000	678,000	698,000	830,000	1,157,000
2. Net Earnings							
(Less) Income Tax	(155,000)	(339,000)	(236,000)	(267,000)	(250,000)	(359,000)	(443,000)
Net Earnings	212,000	445,000	239,000	411,000	448,000	471,000	714,000
3. R.O.C.E.							
Estimated Cap. Employed	4,588,000	5,023,000	6,348,000	6,999,000	7,391,000	7,849,000	8,752,000
Return on Cap. Employed	4.6%	8.9%	3.8%	5.9%	6.1%	6.0%	8.2%

NOTE (1) Net Sales realization after deducting Freight, Canada Sales Tax, Additive Costs, Products Consumed, Refinery and Marketing Losses, Allowable Refining and Marketing Expenses includes Steel Drum Depreciation Expense as originally calculated.

NOTE (2) Special Crude Oil Sale - $22,130

NOTE (3) Total payment in 1969 before loss of $6,522 which was deducted from payments owing in 1970
Actual payments were - 1969 $ 19,630 - Royalties
- 1970 $255,212

NOTE (4) Reduced by sale of fixed assets

M E M O R A N D U M

MARKETING DEPARTMENT

RECEIVED
JUL 16 1974
J. E. AKITT

July 15, 1974.

Yellowknife, Fort Simpson
Posted Prices

Mr. R.D. Mathieson,
Room 1641

We have conducted a brief study of Yellowknife and Fort Simpson posted prices. On the attached tables you will notice that we are in the unfortunate position of showing negative margins at both locations. In summary these margins/ shortfalls are:

¢/Gallon	Esso	F.F.O.	P-40 Diesel
Yellowknife	0.69	(0.26)	0.14
Fort Simpson	(4.79)	(5.03)	(4.53)

The Yellowknife postings are used for both Industrial and Consumer accounts while those at Fort Simpson are in place for "small consumers" only insofar as all transient accounts are handled on a cost-plus basis.

In our posted price structure we should build a minimum net margin ranging from 4.0 - 6.0¢/gallon to give us flexibility in reacting to competitive changes in the market place. On that basis, prices at the subject locations should rise from 4.0 to 6.0¢ at Yellowknife and 9.0 to 11.0¢/gallon at Fort Simpson.

We suggest that we approach EMR and plead a hardship case to bring our postings to a profitable level. It should be explained to the Government that originally, posted prices in the subject area were based on low cost Norman Wells product but over the years supply has shifted to Edmonton without commensurate changes in our pricing structure.

If we are successful in our presentation to EMR, Wholesale Division will try to obtain approval from DIANA to phase-in the price increases.

After reviewing the enclosed tables, please advise what will be the suggested course of action. If further information is required, do not hesitate contacting the writer. An early reply will be most appreciated.

J.A. Lefebvre.

JAL/jd

cc: J.E. Akitt Room 1815
W.P. Moher Room 1851
D.E. Smith Room 1651
G.E. Sorli Room 1846 W/A
G.A. Fullerton Edmonton W/A

MEMORANDUM

MARKETING DEPARTMENT

July 18, 1974.

Norman Wells Heavy Fuel Oil

RECEIVED
JUL 18 1974
J. E. AKITT

Mr. G.A. Fullerton,
Edmonton

In preparing our presentation for a higher heavy fuel oil price at Norman Wells, we asked Logistics to establish the value of heavy fuel oil on the basis that the aggregated costs of Norman Wells operations should be spread evenly over each component of the crude barrel.

We have received the attachments from Logistics which portray an average unit cost plus allowable return of $7.47/B for all products including heavy fuel oil. Secondly, the tables show a product cost calculated within the same guidelines but with zero value for crude. In this case, each barrel of product must recover $4.97 to cover production, refining and marketing expenses before any return on capital employed.

This last calculation is a very valuable observation and can be used positively in our negotiations with N.C.P.C. and DIANA for a higher heavy fuel oil price. The first build-up, however, is somewhat dangerous because if we give equal value to all products a counter agreement can always be developed for lowering the prices of those products above the $7.47/B reference point.

We hope that you will find this information useful.

JAL/jd

J.A. Lefebvre.

Attach.

cc: J.E. Akitt Room 1815 W/A
W.P. Moher Room 1851 N/A
G.E. Sorli Room 1846 N/A

MEMORANDUM

LOGISTICS DEPARTMENT

July 12, 1974

Norman Wells - Heavy Fuel Oil

File: 1214

Mr. J. A. Lefebvre
Room 1813
Building.

In answer to your memo of July 2, 1974, Please find attached a breakdown of the heavy fuel oil cost at Norman Wells Refinery for 1973.

Attachment I shows the derivation of a total cost plus allowable return for all products, including heavy fuel oil, of \$7.466 per barrel of product or 21.33¢ per Imperial gallon, based on a crude value of \$2.33 per barrel.

Because this value for crude is calculated from net sales realization for products, it is partially dependent on the market price of heavy fuel oil. To avoid this problem attachment 2 assumes no cost for crude. It shows that each barrel of product must recover \$4.972 to cover actual producing, refining and marketing expenses before any return on capital employed and regardless of crude cost. Total cost plus allowable return, again assuming zero cost of crude, would be \$5.744/B.

If you have any further questions, please call

D. McVeigh

D. McVeigh
Economics Analyst

DPM/mm
attach.

c.c. P. J. Fenton

Heavy Fuel Oil Cost-Gallonage

Norman Wells 1973

Crude		2.326
Operating Expense		
Payroll	0.610	
Taxes	0.068	
Other Employee Benefits	0.181	
Air Transportation	0.122	
Maintenance & Repairs	0.137	
Supplies	0.084	
Fuel & Utilities	0.286	
Depreciation	0.293	
Research	0.009	
Other Refinery Expenses	0.110	
Charges for Producing Dept.	0.158	
Charges for Services Rendered	(0.523)	
	1.535	1.535
Marketing Expense		0.686
Total Cost ex return (per Bbl of crude)		4.547
Allowable return (1.5¢/IG of crude)		0.525
		5.072

Yield = 647849/953688 = 0.6793

Total Cost plus return per barrel of product

= 5.072/0.6793 = 7.466

= 21.33¢/IG

Heavy Fuel Oil Costing

Norman Wells 1973

Out of Pocket Costs to Imperial

	Total $	$/B of Product
Producing Expense	531,761	0.821
Refinery Expense	1,463,903	2.260
Marketing Expense	654,061	1.100
Payment to Gov't	571,405	0.882
	3,221,130	4.972
Memo: Allowable Return	500,286	0.772

M E M O R A N D U M

MARKETING DEPARTMENT

RECEIVED
JUL 24 1974
J.E. AKITT

July 23, 1974

Yellowknife - Fort Simpson
Posted Prices

Mr. J. A. Lefebvre
Room 1845
Building

I think that it will be difficult to get very far with a hardship case for these locations without the government having to ask where are the windfall profit locations that will be lowered in order to balance the ledger.

Pricing in these communities is highly visible and potentially explosive, hence, I think we need to go slow and develop our figures so that they are both logical and auditable.

I think that we should turn your data over to Peter Craig and he should examine the statistics presented, harden and expand the numbers.

I also think it is difficult to just examine these two locations without widening the scope to Uranium City and probably to Hay River. In any calculations we should look at our new price model and at least initially be governed by its criteria.

This model is being reviewed with W.A. West on July 23rd and with A.R. Haynes on the 24th. It is planned to have data available in the field by September.

R. D. Mathieson

R. D. MATHIESON
Price Coordinator

RDM/ldl

cc: J. E. Akitt
W. P. Moher
D. E. Smith
G. E. Sorli
G. A. Fullerton
P. R. Craig

cc: Mr. W.P. Moher
Mr. G.E. Sorli
Mr. H.F. Yeomans

PROPRIETARY

GNJ/pa Aug.7/74

MEMORANDUM

PETROLEUM PRODUCTS COORDINATION

RECEIVED
Aug 1 1974
J. E. PRICE

August 1, 1974

ARCTIC IMPORT DISCUSSION
E.M.&R./N.W.T. GOVERNMENT
File: 780-1

MR. J. G. LIVINGSTONE
MR. A. R. HAYNES
MR. D. H. MacALLAN
MR. V. SIROIS
MR. W. A. WEST
MR. G. K. WHYNOT
MR. H. G. JARVIS
MR. A. P. BELL
MR. G. R. McLELLAN
MR. H.W.D. KILGOUR
MR. R. E. LANDRY

A meeting was held in Ottawa on July 31, 1974 to discuss various aspects of pricing, compensation and costs related to the supply of product imports to the Arctic.

Attendees at the meeting were Messrs. Bryant, Reinecke and Matthews of E.M.&R.; Strachan and Drabble of E.S.A.B.; Cote and Davidson of the Department of Indian and Northern Affairs and Loftus of the N.W.T. Government.

The meeting opened with the Chairman, Mick Bryant, indicating that the one price system applies in the Arctic as well as other parts of Canada and the compensation program with its associated pricing guidelines also applies to the Arctic.

Imperial showed the increase in F.O.B. prices for Arctic supplies that had occurred since 1972. This indicated increases from 27¢ to 32¢/gal. depending upon product and with the posted price action we had taken in 1973, that which under the federal guidelines we can take in 1974, and with $3.00/Bbl. compensation, Imperial is still short by 2¢- 6¢ per gallon. In addition, we indicated that freight rates had increased over 1972 and that the cost of operating in the Arctic had also increased since 1972.

Our basic pitch at this meeting was that we wanted to recover all of our increased costs from 1972. These increased costs could be covered by (a) compensation, (b) increased product prices, and (c) a combination of product increases and compensation. We stressed the risks involved in operating in this area and the need to remain profitable so that we could remain.

..2(over)

I feel that everyone recognized the increase in F.O.B. and freight costs, however, the D.IAN.A. and N.W.T. people certainly were not receptive to increases in product prices over those allowable under federal guidelines. Supply security was also uppermost in the D.IAN.A., N.W.T. officials' minds.

The D.IAN.A. and N.W.T. officials questioned our pricing policy this year in the North. I indicated that for posted prices we would be following the federal guidelines and for bid business we would charge the quoted price less any compensation we could obtain from the government. This seemed to pacify them somewhat although they wanted some indication of what the compensation level would be. Mick Bryant of E.M.&R. indicated that it would probably be in excess of $3.00/Bbl., however, the actual amount would not be known until E.M.&R. (George Reinecke) and Imperial had sat down and looked at laid down costs of product, and pricing action taken or proposed by Imperial. He indicated, at the insistance of the N.W.T. officials, that they would have a compensation level firmed up by the end of August.

I believe that E.M.&R. will provide compensation to cover the increases in our L.D.C. from 1973 less our price increases. I am pessimistic, however, that they will allow recovery for the shortfall between 1972 and 1973 although we will keep trying. There is no doubt that E.M.&R. will be pressured by both D.I.A.N.A. and the N.W.T. government to quickly determine the level of compensation and one which will allow Imperial to cover its costs. They certainly are worried about continuity of supplies and feel that if Imperial cannot cover its costs, that it will start retreating from the Arctic.

D. S. MOAT

DSM:bdr

cc: Mr. G. R. Wisener
Mr. T. Laidre
Mr. J. R. Haggerty
Mr. D. K. Reynolds
Mr. J. Lefebvre
Mr. J. E. Akitt

Date Aug. 2, 1974

Rec'd Aug 2/74

To: D. E. Smith

From: W.A. WEST

Re attached memo - D. S. Moat, August 1
E.M.& R. Discussion - July 31, 1974

I don't understand the second paragraph.

Can you please develop further with Denis and recommend a position for Marketing.

Last paragraph - what about domestic contracts?

W.A.W.

c.c. C. A. Hayles w/attach
G. N. Jenkins "

PROP

PRODUCTS COORDINATION

1974

ISCUSSION
1974
2

Mr. W. A. West
Mr. G. R. McLell
Mr. R. E. Landry
Mr. W. E. Barret

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E.S.A.B. and Jack Ha

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E.M.&.R. in the near

think we can expect a ruling

I would recommend that any new contract based on imported
approval from E.M.&.R. on the pricing aspects prior to signing.
this, I believe, could result in Imperial absorbing some costs.

what about domestic contracts?

D S Moat

DES. Don't understand 2nd para. Can you please develop further with DSM & recommend a position for back-up? /W

PROPRIETARY

MEMORANDUM

PETROLEUM PRODUCTS COORDINATION

cc { CA Hayes
G. Jenkins

August 1, 1974

E.M.&.R. DISCUSSION
- JULY 31, 1974
File: 770-2

RECEIVED
AUG 1974
W. A. WEST

Mr. J. G. Livingstone
Mr. A. R. Haynes
Mr. D. H. MacAllan
Mr. A. P. Bell

Mr. W. A. West
Mr. G. R. McLellan
Mr. R. E. Landry
Mr. W. E. Barrett

While in Ottawa yesterday the subject of the relationship between contracts, compensation and price guidelines was discussed. Present at this discussion were: Mick Bryant, Bill Mathews and George Reinecke of E.M.&.R.; Bill Strachan and Cooper Drabble of E.S.A.B. and Jack Haggerty and I representing Imperial Oil.

Discussion centered around our pricing policy to certain major fuel oil accounts. I indicated to them that we showed to the customer the actual contracted price with escalations and then deducted the compensation from this price to come up with the net billing price. E.M.&.R. feel that this is a violation of the price guidelines since the compensation is actually less than both the Venezuelan host government take and the F.O.B. ?

I indicated to them that Bill Hopper had ruled that escalation clauses could be allowed to operate. Both Bryant and Reinecke agreed to this but indicated that they felt that this violated price guidelines and that they were looking very seriously at changing this. I told them that this would be quite ? onerous to oil companies with respect to existing contracts since the shortfall would have to be absorbed by the oil companies. If they wanted to handle these contracts differently, they should set out specific guidelines so that new contracts could be written so that the oil companies would not have to absorb the shortfall.

This whole question appears to be up in the air within E.M.&.R. but I think we can expect a ruling to come out of E.M.&.R. in the near future.

what about domestic contracts?

I would recommend that any new contract based on imported supply have approval from E.M.&.R. on the pricing aspects prior to signing. Failure to do this, I believe, could result in Imperial absorbing some costs.

D. S. Moat
D. S. MOAT

DSM/mlc
cc: Mr. G. R. Wisener
Mr. D. E. Smith
Mr. R. D. Mathieson
Mr. T. Laidre
Mr. W. P. Moher
Mr. G. E. Sorli

GNJ

Esso

IMPERIAL OIL LIMITED

MARKETING DEPARTMENT

Vice President & General Manager
WILLIAM A. WEST

Assistant General Managers
CHARLES A. HAYLES
GEORGE N. JENKINS
GEORGE R. WISENER

111 St. Clair Avenue West, Toronto, Canada M5W 1K3

August 14, 1974

Mr. G.A. Fullerton
Western Industrial Manager
Edmonton.

Dear Jerry:

With reference to your letter of August 8 regarding pricing in the Northwest Territories, we are working on the problem and will be back in touch with you the week of August 26th.

As you probably know, John has already visited Ottawa on this subject. It is being followed here by J. A. Lefebvre who is on vacation this week. He will be back in the office next Tuesday and we will be in touch with you to let you know how we plan to proceed.

Best personal regards.

Yours very truly,

George

G.N. Jenkins/pa

Assistant General Manager -
Wholesale.

Review
on 8/21

IMPERIAL OIL LIMITED

MARKETING DEPARTMENT

P.O. BOX 2356, EDMONTON, ALBERTA T5J 2R5

August 8, 1974

AUG 13 1974

cc:
JAL
Aug. 22

Mr. G.J. Jenkins,
Assistant General
Manager-Wholesale,
Toronto, Ontario.

Dear George:

I do not know if you have had an opportunity to discuss with John, the situation regarding pricing in the Northwest Territories, with particular reference to Heavy Fuel to Northern Canada Power Commission.

In any event, without going into a lot of detail, at this point in time we do not have a price in place for Heavy Fuel sold to this particular government concern. The bottleneck seems to be the Department of Indian Affairs and one of the basic plans was that John and perhaps I would go to Ottawa to discuss Heavy Fuel pricing with senior officials of the Department of Northern Affairs.

I would appreciate your looking into this matter and giving me some idea of when we might be going to Ottawa. Depending upon the level of contact, our Corporate Manager for the Arctic, Roly Horsfield, may wish to be part of the group.

Attached are copies of a couple of letters which will give you a little bit more background.

Yours very truly,

G.A. Fullerton
Western Industrial Manager

GAF/mr
Attachs.

G. A. FULLERTON

JUN 28 1974

I M P E R I A L   O I L   L I M I T E D

MARKETING DEPARTMENT

111 St. Clair Avenue West, Toronto, Canada M5W 1K3

[illegible]
WILLIAM A. [illegible]

Assistant General Managers
JOHN E. AKITT
CHARLES A. HAYLES
GEORGE H. WISSLER

June 24, 1974.

Mr. F.J. Joyce,
Director,
Northern Natural Resources and
Environment Branch,
Dept. of Indian and Northern Affairs,
Centennial Tower,
OTTAWA, Ontario.

Dear Sir:

You suggested in your letter of June 5, 1974, that we persue our negotiations with N.C.P.C. on the price of Heavy Fuel Oil and, depending upon the outcome of our discussions, examine the issue with the Ministry later this year.

We understand now that our field unit has obtained N.C.P.C.'s approval to raise the Heavy Fuel Oil price by 1.0¢/gallon and, therefore, we are looking forward to meeting with you and other senior members of your Department to review potential implementation problems and near term implications. We would also appreciate the opportunity of discussing our point of view directly with the Minister.

The desired meeting could also serve the purpose of opening discussions on other relevant topics, such as:

1) Review of Imperial's Northern supply position.

2) Effect of inflating cost on Yellowknife and Fort Simpson operation.

3) High cost, low return of the Aklavik terminal, etc.

Tremendous benefits will accrue from regular and open problem solving exchanges related to the northern petroleum distribution network. To ensure long term economical supply for the North, we acknowledge an obligation to keep you informed of difficulties facing our industry and more particularly, our Company. We must work with your Department in trying to develop meaningful solutions to arising supply or distribution constraints.

Cont'd...

Mr. F.J. Joyce June 24, 1974.

We recognize that because of the upcoming election and vacation season, attempts to schedule a meeting at this time might prove to be futile and hence we will be following up on this matter in mid-July. In the meantime, if you disagree with our suggestion or have an alternate proposition, we will appreciate hearing from you.

Yours very truly,

J.E. Akitt /

JEA/jd

J.E. Akitt,
Assistant General Manager,
Wholesale.

bcc: G.A. Fullerton, Edmonton

Indian and Northern Affairs   Affaires indiennes et du Nord

Copy for Mr. B.G. Christie,
N.C.P.C. (EDMONTON)

Imperial Oil Limited,
Marketing Department,
111 St. Clair Avenue West,
Toronto, Ontario.
M5W 1K3

OTTAWA, Ontario
K1A 0H4
April 24, 1974

Your file Votre référence

Our file Notre référence N-7945-103-11

Attention: Mr. George Brydon,
Assistant General Manager

RECEIVED
15

Dear Sirs:

Note filing
6 - Page 2

Price Increases (1974),
Norman Well Products

I refer to recent meetings of senior officials of Imperial Oil Limited with the Minister and senior officials of the Department, and to your letter of March 26, 1974, to Dr. Woodward in which you summarize your understanding of the results of these meetings, relevant to our approval of price increases for Norman Wells products to be implemented in 1974.

Please be advised that the Minister has agreed to the following:

1. The current price for Norman Wells products to 'small consumers', (individuals or accounts having an annual consumption of less than 10,000 gallons) which was approved by the Minister in April, 1973, may be increased by an amount not exceeding one-cent per gallon effective June 1, 1974.

2. The basic price of Norman Wells product to 'small consumers' shipped from the refinery shall fluctuate up or down directly in relation to changes in Federal Tax and to changes in barge rates ex Norman Wells to delivery points. The abridged Schedule attached indicates the ramifications of some of the relevant approved price increases. Where the price of Edmonton product F.O.B. point of delivery is less, the lesser price shall govern for Norman Wells products.

3. The price charged for Norman Wells products sold by intermediaries for resale to 'small consumers' shall be the price approved in April, 1973, by the Minister increased by an amount not exceeding one-cent per gallon.

4. The volume of Norman Wells refinery products made available annually for 'small consumers' shall not be reduced below the historical highest average annual volume. To the extent that Norman Wells product is available above the 'small consumer' demand, it shall first be directed to local Government requirements.

5. Norman Wells products sold to other large consumers may be increased to a price limit of equivalent Edmonton product laid down at N.W.T. point of sale but a relevant price escalation shall be implemented in approximately equal steps over a three year period which commenced in 1973.

6. Any increases in the price of Norman Wells products delivered to the Northern Canada Power Commission shall be subject to negotiation. However, the price of Norman Wells Bunker, set at 10.7¢ per gallon in 1973, shall not be exceeded.

We understand that the N.C.P.C. has accepted the prices quoted by Imperial Oil for middle distillate products to be supplied in 1974, but are not prepared to accept the suggested price of 12.7¢ per gallon for Bunker. The current price of 10.7¢ per gallon reflects a three-cent or 39% increase in the price of Bunker sold to the N.C.P.C. in 1972, and further price increases will reflect unduly in costs of heat and electric energy to 'small consumers'. The N.C.P.C. plants at Inuvik and Fort Simpson were specially designated in each case to use this product then in surplus supply at Norman Wells. It is therefore the Minister's view that a further increase in the price of Norman Wells Bunker sold to the N.C.P.C. is not warranted at this time.

Prior notice of at least three working days in regards to the content of public announcements concerning price increases shall be given to this office.

Yours sincerely,

F.J. Joyce,
Director,
Northern Natural Resources
and Environment Branch.

Attach.

SCHEDULE: SMALL CONSUMER PRICES
NORMAN WELLS PRODUCT

Approved effective June 1, 1974, Federal Sales Tax Included:

¢I.G.	Aklavik	Inuvik	Norman Wells
Esso Gasoline	33.4	33.6	27.0
Esso Diesel Fuel P-40	31.8	32.1	24.6*
Esso Diesel Fuel P-50	32.8	33.1	25.6*
Esso Heating Oil P-40	30.0	30.3	22.8
Esso Heating Oil P-50	31.0	31.3	23.8

* Includes a .6¢ per gallon increase in Federal Sales Tax on Diesel Fuel accounting for the increase of 1.6¢.

When the purchaser of Norman Wells product is exempt from the Federal Sales Tax, the selling price of the product to that purchaser will be reduced by the amount of the Federal Sales Tax.

cc: Mr. B.G. Rosser
Mr. D.R. Eng...

May 3, 1974

Northern Canada
Power Commission

Mr. J.E. Akitt,
Assistant General
Manager-Wholesale,
Toronto, Ontario.

Dear Sir:

Attached is a copy of a letter finally received by the writer on May 1, 1974, from Mr. B.G. Christie, Assistant General Manager-Operations, Northern Canada Power Commission.

Subsequent to receiving this letter, I have had a couple of conversations with Mr. Christie. During our first discussion, he agreed to accept a price increase of ½¢/gallon which was not acceptable to me. This morning we again discussed, at some length, the whole pricing of Heavy Fuel ex our Norman Wells Refinery to his various installations.

Our basic approach was that the 2¢ increase was predicated on four points; 1¢/gallon cost push; i.e., 10%; and the other 1¢ was to accomplish the following:

A. Improve the ROCE on the whole Norman Wells operation which, at this point in time, is below an acceptable return;

B. Maintain the differential between what other customers are paying for this product and N.C.P.C.'s price; i.e., we have sold Norman Wells Heavy Fuel this year for 13.8¢/gallon. Last year, their price was 10.7¢; other customers paid 11.8¢.

...2

Mr. J.F.Akitt

May 3, 1974

C. Within the spirit of discussions held with Digby Hunt and the Commissioner of the Northwest Territories, gradually increase the price of product so that when the full impact of the southern pricing hits the North, the differential will not be too great.

After a lengthy discussion, Mr. Christie would not agree to the 1¢ involved in these last three arguments and I would not agree to reduce it below at least the cost push. My major concern was that not only would I not accomplish these points but by dropping below the cost push, I would be taking a retrograde step and I should at least be maintaining status quo. He finally accepted the position of a 1¢/ gallon increase but stated he would have to clear this with his General Manager, John Lowe, and would advise.

I will keep you informed.

Yours very truly,

G.A. Fullerton
Western Industrial Mahager

GAF/mr
Attach.

MEMORANDUM

MARKETING DEPARTMENT

August 21, 1974.

Price Increase - Norman Wells Area

Mr. G.N. Jenkins,
Room 1815

On June 1, 1974, we were successful in increasing the prices of Norman Wells products as follows:

¢/Gal.	Aklavik	Inuvik	Norman Wells
Small Accounts			
Gasoline & Distillate	1.0	1.0	1.0

In addition, increased freight costs and taxes were recovered.

Large Accounts	Aklavik	Inuvik	Norman Wells
Turbo	-	8.8	9.2
Avgas	-	6.8	7.5
Gasoline	10.1	10.1	10.0
Diesel	10.7	10.7	10.4
Heating	11.0	11.0	10.8
H.F.O.	-	-	-

Similar increases were approved by DIANA for 1975.

Prices for products delivered in the area out of Edmonton were adjusted upward to recover increased costs of crude, freight and taxes.

The effect of these price changes on the return on capital employed have yet to be determined due to a technical problem encountered in the procedure adopted to calculate ROCE on the Norman Wells operations. I am attaching a copy of a letter to Mr. J.E. Akitt summarizing my concern. No progress has been made so far in clearing up this issue.

JAL/jd
Attach.

J.A. Lefebvre.

M E M O R A N D U M

MARKETING DEPARTMENT

July 8, 1974.

Norman Wells Operations
R.O.C.E.

Mr. J.E. Akitt,
Room 1815

The enclosed table summarizes the profit position of Norman Wells operation for the years 1967 to 1973.

You will note under section B, Imperial Corporate Results of Operations - P/L, that the 1973 return on capital employed leaped to 8.2% from 6.0% the previous year.

I have asked Comptroller's to give us a complete analysis of the ways and means used for compiling the crude value at the wellhead in Norman Wells. According to the Red Book, crude value has increased by the surprising amount of $1.14/B over 1972. The higher value is due to improved postings but, to a large extent it also reflects the higher prices received for Edmonton based products sold in N.W.T.

Comptroller's inform us that the crude price is the sales value of products made from Norman Wells crude netted back to the wellhead. In actual fact, however, because they are using the FIFO system in establishing product sales values the crude value in the Red Book is more representative of an average sales value of products processed at both Norman Wells and Edmonton. This accounting procedure results in a higher payment to the government for their share of crude than they would be entitled to if only Norman Wells based products were used. It also gives a distorted portrayal of Norman Wells profit position.

I am hoping that Comptroller's will be able to clear the issue by early August. I will keep you informed.

JAL/jd

J.A. Lefebvre.

cc: W.P. Moher Room 1851 W/A
G.L. Munro Room 646 "

NORMAN WELLS OPERATIONS
1967-1973

	1967	1968	1969	1970	1971	1972	1973
A. NORMAN WELLS RED BOOKS							
1. Gross Realization from Profits Sold	$3,610,664	$4,702,981	$4,644,411	$4,224,207	$4,065,095	$6,494,918	$6,354,548
2. Resultant Crude Oil Evaluation - Note (1)	0.7785	1.2066	0.6937	1.3713	1.52845	1.0788	2.3263
3. Gross Oil Production							
Production - Bbls	684,179	753,692	790,276	846,003	939,151	890,067	962,733
$/Bbl.	0.7785	1.2066	0.6937	1.3713	1.52845	1.0788	2.3263
Value	532,633	909,284	548,213	1,160,124	1,435,445	960,204	2,239,606
4. Gross Gas Production							
Production - MCF	40,585	42,602	43,723	81,939	299,204	351,596	276,953
$/MCF	0.42	0.42	0.42	.042	0.413	0.4145	0.4183
Value	17,055	17,979	18,539	34,287	123,566	145,727	115,845
5. Total Value of Crude Oil and Gas Produced	549,688	927,263	588,882 (2)	1,194,411	1,559,011	1,105,931	2,355,451
6. Producing Costs - Operating and Development	259,970	830,060	553,131	492,446	502,733	925,832	797,017
7. Government 1/3 Share							
1/3 Value of Oil and Gas produced	183,230	309,087	196,293	398,137	519,671	368,644	785,150
Add 5% Roy. on Imp. 2/3 Share	18,322	30,909	19,630	39,814	51,967	36,864	78,516
(Less) 1/3 Producing Costs	(86,657)	(276,686)	(184,377)	(164,148)	(167,577)	(308,611)	(265,673)
(Less) 10% Management Fee on 1/3 Producing Costs	(8,666)	(27,669)	(18,438)	(16,415)	(16,771)	(30,941)	(26,588)
Total	106,229	35,641	13,108 (3)	257,388 (3)	387,290	65,956	571,405
8. Imperial 2/3 Share							
2/3 Value of Oil and Gas Produced	366,458	618,176	392,589	796,274	1,039,340	737,287	1,570,301
(Less) 5% Royalty	(18,322)	(30,909)	(19,630)	(39,814)	(51,967)	(36,864)	(78,516)
(Less) 2/3 Producing Costs	(173,313)	(553,374)	(368,754)	(328,298)	(335,155)	(617,221)	(531,344)
Add 10% Government Management Fee on 1/3 Producing Costs	8,666	27,669	18,438	16,415	16,771	30,941	26,588
Add (Less) Inventory Adj.	38,443	(33,630)	12,459	(10,313)	(47,891)	54,943	(112,610)
Total	221,932	27,932	35,102	434,264	621,098	169,086	874,419
B. IMPERIAL CORPORATE RESULTS OF OPERATIONS - P&L							
1. Earnings Before Tax							
Imp. 2/3 share	221,932	27,932	35,102	434,264	621,098	169,086	874,419
Add (Less) Cap. Expenditure	289,000	894,000	613,000	422,000	298,000	968,000	601,000
(Less) Depreciation	(20,000)	(20,000)	(26,000)	(29,000)	(38,000)	(93,000)	(112,000)
(Less) Gen. Exp. & Admin.	(124,000)	(118,000)	(147,000)	(149,000)	(183,000)	(214,000)	(206,000)
Earnings Before Tax	367,000	784,000	475,000	678,000	698,000	830,000	1,157,000
2. Net Earnings							
(Less) Income Tax	(155,000)	(339,000)	(236,000)	(267,000)	(250,000)	(359,000)	(443,000)
Net Earnings	212,000	445,000	239,000	411,000	448,000	471,000	714,000
3. R.O.C.E.							
Estimated Cap. Employed	4,588,000	5,023,000	6,348,000	6,999,000	7,391,000	7,849,000	8,752,000
Return on Cap. Employed	4.6%	8.9%	3.8%	5.9%	6.1%	6.0%	8.2%

NOTE (1) Net Sales realization after deducting Freight, Canada Sales Tax, Additive Costs, Products Consumed, Refinery and Marketing Losses, Allowable Refining and Marketing Expenses includes Steel Drum Depreciation Expense as originally calculated.

NOTE (2) Special Crude Oil Sale - $22,130

NOTE (3) Total payment in 1969 before loss of $6,522 which was deducted from payments owing in 1970
Actual payments were - 1969 $ 19,630 - Royalties
- 1970 $255,212

NOTE (4) Reduced by sale of fixed assets

PROPRIETARY

MEMORANDUM

PETROLEUM PRODUCTS COORDINATION

RECEIVED
AUG 28 1974
G. N. JENKINS

August 23, 1974

ARCTIC IMPORT COMPENSATION
File: 780-1

Mr. J. G. Livingstone
Mr. A. R. Haynes
Mr. V. Sirois
Mr. W. A. West
Mr. G. K. Whynot

Mr. D. H. MacAllan
Mr. H. G. Jarvis
Mr. G. N. Jenkins ✓

A meeting was held in our office on August 22 with Mr. George Reinecke of E.M.&.R. and Messrs. Jacques Lefebvre and Dennis Moat to discuss data for required FOB and freight compensation for Arctic imports. The following is a summary of our discussion.

(1) We presented data regarding FOB and LDC for 1972, 1973 and 1974 in the Arctic, the product supply system and associated volumes. In addition, our data indicated that we would require 12-17¢/gallon FOB compensation (depending upon product) and 1-11¢/gallon for freight compensation (depending upon supply system).

(2) We also discussed and gave data relating to our posted price action in the north since 1972. In addition, we gave Mr. Reinecke a breakdown of our bid to Asbestos Corporation in Deception Bay.

(3) Reinecke's attitude appeared to be favourable to our justification for compensation levels greater than compensation currently being paid for imports in southern Canada. He, and I know Roland Priddle, feel that the Arctic should be treated separately.

(4) On the basis of the data presented regarding Asbestos Corporation, it was Reinecke's opinion that we would be following the guidelines if our invoices showed the contracted price less estimated compensation. (Jacques Lefebvre will follow-up on this item).

(5) A letter from Dr. Cote of Department of Indian and Northern Affairs complaining about a significant increase in bids on Baffin Island was discussed. The data which we gave to Reinecke justified the higher price with the only modification being that an estimated compensation level should be subtracted.

Dr. Cote also indicated in his letter that vessel accidents at Resolute in 1972 and 1973 were not as costly as had been indicated previously by Imperial. His opinion was that Imperial followed the same policy as Exxon and was self insured. We discussed this point and indicated that the ships sent to the north were not necessarily Imperial/Exxon owned

ships and thus any claims had to be settled between the charterer (Imperial/Exxon) and the owner. Reinecke appeared to be quite satisfied with this explanation.

(6) The question of Arctic product compensation will be discussed within E.M.&.R. next week and there is a possibility that Bill Hopper will be sending a memo on this to Mr. Macdonald. We suggested that this request for higher compensation be handled under the special case or hardship clause contained in the guidelines. Reinecke's opinion was that the normal compensation component could be handled under the existing compensation guidelines and the additional compensation required for the Arctic could be handled under the special case or hardship clause. The method of obtaining this compensation will no doubt be one of the items discussed within E.M.&.R.

It is apparent that D.I.A.N.A. and to a lesser extent the N.W.T. government are pushing for resolution of the compensation level. They also do not want a price increase greater than that experienced in eastern Canada.

D. S. MOAT

DSM/mlc

cc: Mr. D. E. Smith
Mr. T. Laidre
Mr. M. J. Huffman
Mr. J. R. Haggerty
Mr. G. Sorli
Mr. J. Lefebvre
Mr. J. K. Levins

MEMORANDUM

MARKETING DEPARTMENT

August 27, 1974.

Northwest Territories

Mr. G.N. Jenkins,
Room 1815

A meeting is set with the Department of Indian Affairs and Northern Development for September 25, 1974. The attendees will be Mr. F.J. Joyce and Dr. H.W. Woodward of the Northern Natural Resources and Environment Branch, Mr. C.E. Langston and myself. We will also extend an invitation to Mr. G.A. Fullerton.

Our discussion at this meeting will be centered on the Norman Wells supply area and the topics contemplated are:

- HFO price to NCPC
- Aklavik operation
- 1975 price increases
- Yellowknife and Fort Simpson posted price deficiencies
- Western Arctic emerging supply pattern.

In addition to the above, we hope that sufficient data will be available from our Comptrollers Department to review Norman Wells operations accounting procedure.

While in Ottawa, we will also try to meet with the DIANA representatives responsible for the procurement of petroleum products in the Eastern Arctic. Furthermore we are looking forward to discussing with the Department of Public Works and the Department of Supply and Services our Churchill agreement which is renewable in 1975. As mentioned in a previous conversation, this latter agreement is far from being favourable to Imperial under existing marketing conditions.

Mr. C.E. Langston has expressed a keen interest in all the above subjects and is desirous of getting fully involved.

All visual aids will be reviewed with yourself and Mr. W.P. Moher prior to our discussions with the Government officials.

JALefebvre

J.A. Lefebvre.

JAL/JD

cc: W.P. Moher Room 1851
G.E. Sorli Room 1846
C.E. Langston Ottawa

CHURCHILL OPERATION

GOVERNMENT OWNED TANKAGE		MG
AVGAS	510	
GASOLINE	680	
DIESEL	8940	
EMPTY	994	
	11,124	or 318MB

IMPERIAL FACILITIES		
KEROSENE	12.5	
NAPTHA	12.5	
TURBO B	25	
AVGAS 80/87	25	
	75	or 2MB

J.A. LEFEBVRE
September 5, 1974.

CHURCHILL AGREEMENT

DURATION

- SIGNED SEPTEMBER 1965 TO AUGUST 31, 1966.
- LAST NEGOTIATION COVERED PERIOD SEPTEMBER 1, 1973 - AUGUST 31, 1975
- TERMINATION DEADLINE: JULY 31, 1975.

TERMS

- IMPERIAL HAS EXCLUSIVE RIGHT TO USE, OCCUPY AND OPERATE FACILITIES.
- IMPERIAL HAS SOLE RIGHT TO SUPPLY ALL PETROLEUM PRODUCTS TO GOVERNMENT AT CHURCHILL.
- ALL PRODUCTS TO GOVERNMENT SOLD AT COSTS PLUS 0.5¢/GALLON HANDLING CHARGE
- IMPERIAL HAS USE OF FACILITIES TO SELL TO OTHER PURCHASERS AT FAIR AND REASONABLE PROFIT.
- FACILITIES MUST BE MAINTAINED BY OPERATOR.
- OTHER SOURCES OF REVENUE; 1) T/T DELIVERIES; 2) CHARGES FOR PRODUCT LOSS AND ADMINISTRATION FEES ON CARGO MOVEMENTS.

J.A. LEFEBVRE
SEPTEMBER 5, 1974.

1973 - CHURCHILL PROFITABILITY

OVERHEAD PRODUCTS

ADDITIONAL REVENUE REQUIRED FROM GOVT. SALES	$M
PROFIT BEFORE TAX - GOVT SALES	(38)
PROFIT BEFORE TAX - NON-GOVT. SALES	38
	-
COST OF CAPITAL	(187)
	(187)

ADDITIONAL REVENUE REQUIRED: 2.3¢/gal.

J.A. LEFEBVRE
SEPTEMBER 5, 1974

1973 - CHURCHILL PROFITABILITY

OVERHEAD PRODUCTS $M

	GOVT. SALES	NON-GOVT. SALES	TOTAL SALES
VOLUME MB	229	51	280
CONTRIBUTION	42	56	98
LESS OVERHEAD	80	18	98
PROFIT BEFORE TAX	(38)	38	-
CAPITAL COST*	(153)	(34)	(187)
REVENUE SHORTFALL	(191)	4	(187)

*INVENTORY, RECEIVABLES, FACILITIES LESS LIABILITY CREDITS @ 16%

J.A. LEFEBVRE
SEPTEMBER 5, 1974.

CASE A - Based on total compensation for 1973-1974 F.O.B. cost uncovery

1974 - CHURCHILL PROFITABILITY

OVERHEAD PRODUCTS	$M
ADDITIONAL REVENUE REQUIRED FROM GOVT. SALES	
PROFIT BEFORE TAX - GOVT. SALES	(8)
PROFIT BEFORE TAX - NON-GOVT. SALES	45
	37
CAPITAL COST	(331)
	(294)

ADDITIONAL REVENUE REQUIRED: 3.6¢/Gal.

J.A. LEFEBVRE
SEPTEMBER 5, 1974.

CASE A - Based on total compensation for 1973-1974 F.O.B. cost uncovery

1974 - CHURCHILL PROFITABILITY

OVERHEAD PRODUCTS $M

	GOVT. SALES	NON-GOVT. SALES	TOTAL SALES
VOLUME MB	236	60	296
CONTRIBUTION	75	66	141
LESS OVERHEAD	83	21	104
PROFIT BEFORE TAX	(8)	45	37
CAPITAL COST*	(264)	(67)	(331)
SHORTFALL BEFORE TAX	(272)	(22)	(294)

*INVENTORY, RECEIVABLES, FACILITIES LESS LIABILITY CREDITS @ 16%

J.A. LEFEBVRE
SEPTEMBER 5, 1974

CASE B - Based on total compensation for 1972-1974 F.O.B. cost unrecovery.

1974 - CHURCHILL PROFITABILITY

OVERHEAD PRODUCTS	$M
ADDITIONAL REVENUE REQUIRED FROM GOVT. SALES	
PROFIT BEFORE TAX - GOVT. SALES	(8)
PROFIT BEFORE TAX - NON-GOVT. SALES	88
	80
CAPITAL COST	(301)
	(221)

ADDITIONAL REVENUE REQUIRED: 2.7¢/Gal.

J.A. LEFEBVRE
SEPTEMBER 5, 1974.

CASE B - Based on total compensation for 1972-1974 F.O.B. cost unrecovery.

1974 - CHURCHILL PROFITABILITY

OVERHEAD PRODUCTS $M

	GOVT. SALES	NON-GOVT. SALES	TOTAL SALES
VOLUME MB	236	60	296
CONTRIBUTION	75	109	184
LESS OVERHEAD	83	21	104
PROFIT BEFORE TAX	(8)	88	80
CAPITAL COST*	(240)	(61)	(301)
SHORTFALL BEFORE TAX	(248)	27	(221)

*INVENTORY, RECEIVABLES, FACILITIES LESS LIABILITY CREDITS @ 16%

J.A. LEFEBVRE
SEPTEMBER 5, 1974.

A. - Aviation
I. - Industrial CIRT
W.O. - Wholesale Operations
P.P.C.- Petroleum Products Coordination
O.P.C.- Operations, Planning & Coordination

ARCTIC RESPONSIBILITIES

AREA	REGION	OTTAWA	HEAD OFFICE
Eastern Arctic Supply - direct cargo deliveries	Volume Forecast - I. N.W.T. tenders - I Billing, credit - I Follow-up - I	Federal tenders Federal contract	Costing/pricing - W.O. Supply Coordination - W.O. Compensation - W.O., P.P.C. Profitability - W.O.
Churchill, Frobisher, Resolute	Volume forecast - I Profitability - I, O.P.C. Operator agreement - I, O.P.C. Field coverage - I Billing, credit - I	Federal tenders Federal contract Participation in negotiation of operator agreement	Costing/pricing - W.O., O.P.C. Supply Coordination - W.O. Compensation - W.O., P.P.C. Review of operator agreement - W.O.
Goose Bay	Volume Forecast - I., A. Operator Agreement - O.P.C. Field Coverage - I Transportation/Marketing Interface -I Billing, credit - I	Federal tenders Federal contract Participation in negotiation of operator agreement	Volume forecast - A., W.O. Costing/pricing - W.O., O.P.C., A. Compensation - W.O., P.P.C. Supply Coordination - W.O. Profitability - A., W.O. Operator agreement - A., W.O.
Norman Wells Supply Area	Volume forecast - I Profitability - I., O.P.C. Edmonton compelled pricing - I Posted/Reference prices - I N.W.T., N.C.P.C., N.C.T.L. negotiations-I Federal negotiations - I Systems - I., O.P.C.	Federal contract Participation in posted price negotiations and other issues involving DIANA	Posted/Reference prices - W.O., O.P.C. Profitability overview - W.O. Federal negotiations - W.O. Producing/Marketing interface - W.O.

J.A. LEFEBVRE

SEPTEMBER 6, 1974.

Mr. G. N. Jenkins

George, For your information. Please advise if you have anything to add

[signature]

IMPERIAL OIL LIMITED

MARKETING DEPARTMENT

Vice President & General Manager
WILLIAM A. W[...]

Assistant General Managers
CHARLES A. HAYLES
GEORGE N. JENKINS
GEORGE R. WISENER

111 St. Clair Avenue West, Toronto, Canada M5W 1K3

RECEIVED SEP [...] 1974 G. N. JENKINS

September 9, 1974

Resolute Bay/Churchill
Profitability Study

Mr. G. A. Fullerton
Edmonton

As we discussed in Mr. G. N. Jenkins' office on Friday, September 6, 1974, due to the difficulty of recovering all cost-push factors in the Eastern Arctic under present government price freeze guidelines, it is important that we prepare profit and loss analyses for the years 1973 and 1974 and forecast our 1975 profit position at both Churchill and Resolute Bay. The 1973 and 1974 P/L's for Churchill are done - a review of some basic assumptions may be required - but the 1975 profit forecast remains to be completed.

Because of staff limitation in Wholesale Operations and because the assurance of profitable operations at these locations lies with the Region, we ask that someone either in OPC or in your unit be made responsible for performing the required work. Obviously Central Office must supply a great deal of raw data, such as laid down product costs, compensation levels, supply patterns, etc...

This project cannot be consummated prior to the settlement of compensation rates for Arctic deliveries. However, since we will have to establish Imperial's position at both locations fairly quickly we should set the wheels in motion immediately. This profitability study is considered urgent because if our operations are not profitable - which seems to be the case at Churchill - we will need considerable time for negotiating a more favourable position with the government. If we cannot arrive at an entente, then the government will require additional time to alter its supply mode and product distribution arrangement at both locations.

...../2

Churchill is more critical because our contract with DPW terminates on September 1, 1975 and we already know that we do not intend renewing the existing agreement without major changes which will trigger long negotiations. Furthermore, the government, together with Northern Transportation and N.W.T., is also currently assessing the future of the Churchill operation. A move by the government to take over the Churchill facilities would necessitate corporate investment to satisfy non-government demands in the area.

For your convenience I am attaching another copy of the Churchill P/L's which were submitted to you while you were in Toronto.

I would appreciate it if you could ask your nominee for handling the subject studies to contact me as soon as possible so that we can establish a work schedule. If you have questions regarding our approach to these profitability studies, please contact me.

Best regards,

J. A. Lefebvre

JAL/gl

cc: W.P. Moher
G.E. Sorli
C.E. Langston

att.

IMPERIAL OIL LIMITED

MARKETING DEPARTMENT

Vice President & General Manager
WILLIAM A. WEST

Assistant General Managers
CHARLES A. HAYLES
GEORGE N. JENKINS
GEORGE R. WISENER

111 St. Clair Avenue West, Toronto, Canada M5W 1K3

RECEIVED
SEP 1974
G. N. JENKINS

September 10, 1974

Frobisher Bay

Mr. A. Bomben
Montreal

While you were in Toronto last week, we discussed briefly the importance of studying the effect of government price freeze guidelines on our Frobisher operation. We are applying for compensation to cover the total increase in product laid down costs which was not recovered through the allowed posted price action (see attachment) - but the effect of inflation on operating costs is not compensable and will negatively affect our 1974/1975 profit position.

Because of staff limitations in Wholesale Operations and because the assurance of profitable operations in the Arctic lies with the Regions, we ask that someone either in O.P.C. or in your unit be made responsible for performing Frobisher profit and loss analyses for the years 1973/1974 and a forecast of the 1975 profit picture. Obviously Central Office must supply a great deal of raw data, such as laid down product costs, compensation levels, supply patterns, etc...

This project cannot be consummated prior to the settlement of compensation rates for Northern deliveries. However, since we will have to establish Imperial's position in the Arctic rather quickly we should set the wheels in motion immediately. This profitability study is considered urgent because if our Frobisher operation is not up to the desired profit level, we will need considerable time for negotiating a more favourable position with the government. If we cannot arrive at an entente, then the government will require additional time to alter its supply mode and product distribution arrangement.

...../2

I would appreciate it if you could ask the Region nominee for handling the subject task to contact me as soon as possible so that we can establish a work schedule. If you have any queries regarding our approach to this profitability study, please contact me.

Best regards,

J. A. Lefebvre

JAL/gl
att.

cc: G.N. Jenkins
W.P. Moher
D.S. Moat
G.E. Sorli
C.E. Langston

September 17, 1974

Mr. W. A. West,
Department.

Both you and Arden have raised several questions about the status of Imperial's Arctic negotiations. The attached summary, prepared by Jacques Lefebvre, presents a good picture of our current status.

We believe that things are under good control for this year, and negotiations are proceeding on a priority basis on next year's program.

G. N. Jenkins

GNJ/sb
Attach.
Arctic Activities
Status Report
JAL - Sept. 16/74.

leted
- Oct. 1-Oct. 4/74
- Oct. 15/74
- Sept. 27-Oct. 1/74

le

locations by authorized
¢/gal)

for unrecovered LDC

cted as settlement (~ $6.00/B).
be known within the

ofitability of Eastern Arctic
factory level

completed and accepted by

1974

. industrial accounts

- transient accounts supplied ex Edmonton with full recovery of bridging costs

J. A. Lefebvre
September 16, 1974

ARCTIC ACTIVITIES

STATUS REPORT

Supply

*East - cargo movement almost completed
. Deception Bay : 50MB - Oct. 1-Oct. 4/74
. Goose Bay : 150MB - Oct. 15/74
. Churchill : 100MB - Sept. 27-Oct. 1/74

- sealift proceeded smoothly

*West - product movement on schedule
- no untoward accident

Prices

*East - posted prices moved at all locations by authorized amounts (mogas/diesel 7.1¢/gal)

- presentation made to EM& R for unrecovered LDC

- change in product HGT expected as settlement (~ $6.00/B). Government position should be known within the next two weeks

- with above compensation, profitability of Eastern Arctic operation restored to satisfactory level

- Goose Bay/Churchill audits completed and accepted by Price Waterhouse

*West - posted prices move June 1, 1974
. small consumers
. industrial accounts

- transient accounts supplied ex Edmonton with full recovery of bridging costs

J. A. Lefebvre
September 16, 1974

CHALLENGES

1) . Meeting with DIANA, Sept. 25, 1974 to negotiate N.C.P.C.'s HFO price (1.0¢/gal increase)

2) . Obtain DIANA approval re Norman Wells area posted price change schedule for 1975

   . Aiming for acceptance on Sept. 25, 1974

3) . Negotiation of the Churchill agreement ending on August 31, 1975

   . Imperial position to be stated by October 31, 1974

4) . Negotiation of the Goose Bay lease ending on June 30, 1975

   . Imperial position to be stated by October 31, 1974

5) . Complete post audits at Churchill/Goose Bay/Frobisher and Resolute by October 31, 1974

6) . Review of accounting procedure for establishing Norman Wells crude value

   . Marketing/Corporate Comptrollers to set work schedule after ascertaining our concern

   . Review with DIANA prior to compilation of 1974 Red Book

J. A. Lefebvre
September 16, 1974

MEMORANDUM

PETROLEUM PRODUCTS COORDINATION

September 19, 1974

COMPENSATION FOR ARCTIC
PRODUCT IMPORTS
File: 780-1

Mr. J. G. Livingstone
Mr. A. R. Haynes
Mr. W. A. West
Mr. V. Sirois
Mr. G. K. Whynot
Mr. D. H. MacAllan

Mr. R. E. Landry
Mr. H. G. Jarvis
Mr. G. N. Jenkins
Mr. G. R. Wisener
Mr. G. R. McLellan
Mr. A. P. Bell

The attached telex from E.M.&.R. reflects the results of our negotiations for increased compensation for Arctic imports.

In effect, this new basis will result in compensation levels of about \$5.75-\$6.25/barrel, which are considerably above the current approximately \$3.25/barrel for product imports into southern Canada.

The level of compensation now gained for the Arctic recovers all F.O.B. cost pushes in products for the Arctic since 1972.

Compensation for increases in freight will be made under the normal compensation plan.

This new ruling can be applied to all direct imports into the Arctic and those that are transhipped through Dartmouth and Montreal. It cannot be used for products manufactured at Montreal and Dartmouth from foreign crude and subsequently shipped to the Arctic.

I would suggest that we have good documentation to prove that volumes imported into Dartmouth and Montreal for transhipment to the Arctic are actually transhipped. Volumes that stay in southern Canada will only receive the compensation levels for southern Canada.

D. S. MOAT

DSM/mlc
Encl.

cc: Mr. M. J. Huffman
Mr. J. R. Haggerty
Mr. T. Laidre
Mr. D. E. Smith
Mr. W. P. Moher
Mr. J. A. Lefebvre

O*

IMPOIL TOR

EMAR OTT

OTTAWA ONTARIO 19/9/74

ATTENTION MR D S MOAT AND MR JACQUES LEFEVRE

RE: COMPENSATION OF 1974 ARCTIC REPLENISHMENT IMPORTS

1. THIS IS TO CONFIRM THAT MINISTERIAL APPROVAL HAS BEEN OBTAINED FOR THE COMPENSATION OF THE ABOVE IMPORTS ON THE BASIS OF THE INCREASE OVER 30 NOVEMBER 1973 IN THE VENEZUELAN HOST GOVERNMENT TAKE ON THE PRODUCTS IN QUESTION, UNDER DEDUCTION OF AN ALLOWANCE OF DOLLARS 0.945 CENTS PER BARREL TO REFLECT THE PERMITTED 15 MAY 1974 INCREASE IN PRODUCTS SELLING PRICES IN NORTHERN CANADA.

2. IMPORTERS' COMPENSATION CLAIMS WILL BE HANDLED AS QUICKLY AS POSSIBLE ON THE ABOVE BASIS. SHOULD QUESTIONS ARISE AS TO THE UNIT AMOUNT OF COMPENSATION ON PARTICULAR PRODUCTS, PLEASE CONSULT A KEALEY AT 613-994-9729.

R PRIDDLE DIRECTOR OIL IMPORT COMPENSATION PROGRAM

EMAR OTT

CORRECTION TO THE ABOVE NUMBER 1 SHOULD READ SOUTHERN CANADA REPEAT SOUTHERN CANADA

*

IMPOIL TOR

EMAR OTT

Mr. A. N. Jenkins.

Arctic Compensation.

EM&R. approval.

74

T AND MR

1974 ARC

For your information
[initials]

0.

IMPOIL TOR

EMAR OTT

OTTAWA ONTARIO 19/9/74

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EMAR OTT

CORRECTION TO THE ABOVE NUMBER 1 SHOULD READ SOUTHERN CANADA REPEAT SOUTHERN CANADA

IMPOIL TOR

MEETING WITH DEPARTMENT OF INDIAN AND NORTHERN AFFAIRS

SEPTEMBER 25, 1974

TOPICS

* NORTHERN CANADA POWER COMMISSION - PRICE OF HEAVY FUEL OIL EX NORMAN WELLS

* PRICES OF PETROLEUM PRODUCTS TO "SMALL CONSUMERS" IN NORMAN WELLS SUPPLY AREA

* YELLOWKNIFE/FORT SIMPSON POSTED PRICE SHORTFALLS

J.A. LEFEBVRE

SEPTEMBER 23, 1974.

NORMAN WELLS SUPPLY AREA

BACKGROUND TO PRICE STABILITY

1. NORMAN WELLS AGREEMENT -
   - IMPERIAL OIL LIMITED AND FEDERAL GOVERNMENT
2. LONG TERM AVAILABILITY EX NORMAN WELLS
3. GOVERNMENT DESIRE TO KEEP PRICES DOWN FOR "NORTHERNERS"
4. BASIC PRICE STABILITY ON THE PRAIRIES

PRAIRIES: 1962 - 1969 - 2.2¢
1969 - 1972 - 2.0¢

J.A. LEFEBVRE
SEPTEMBER 23, 1974

NORMAN WELLS SUPPLY AREA

CHANGE IN ENVIRONMENT

HIGHLIGHTS

* INCREASING EDMONTON SUPPORT
  1973 - 52% OF DISTILLATE DELIVERED FROM EDMONTON

* ABRUPT CHANGE IN THE VALUE OF ENERGY

PRAIRIE:	1973	• 4.4¢
	1974	• 8.6¢
		13.0¢

* LARGE CAPITAL OUTLAY REQUIRED TO MEET STRINGENT ENVIRONMENTAL STANDARDS

* GALLOPING INFLATION

* TIGHTENING OF PRAIRIE SUPPLY

J.A. LEFEBVRE

SEPTEMBER 23, 2974

NORMAN WELLS PRODUCT TO N.C.P.C. - PRICING

NORMAN WELLS PRODUCT	CURRENT PRICE	EQUIVALENT PRODUCT AT:	EDMONTON POSTED	EDMONTON NET	TORONTO POSTED	TORONTO NET
DIESEL P-40	22.8	DIESEL #1	33.3	28.3	34.6	29.6
DIESEL L.S.	20.5	MARINE DIESEL	-	-	30.0	30.0
DIESEL HEAVY X	17.9	ROYAL FUEL	-	-	30.0	28.0
FUEL OIL 6300	(1)U.N.	FUEL OIL 46	23.9	23.9	29.9	28.0
		FUEL OIL 6300	21.0	21.0	25.1	25.1

(1) U.N. - UNDER NEGOTIATION

PRICES AS OF SEPTEMBER 23, 1974

ALL PRODUCT PRICES EXCLUDE CANADA SALES TAX

ROYAL FUEL, FUEL OIL 46, FUEL OIL 6300 PRICES ARE AT THE RACK

J.A. LEFEBVRE

SEPTEMBER 23, 1974

1973 HEAVY FUEL COST VS N.C.P.C.'S NET PRICE $/B

OUT OF POCKET COST		
		4.973
* PRODUCING EXPENSE	0.821	
* REFINING/MARKETING	3.270	
* PAYMENT TO GOVERNMENT	0.882	
N.C.P.C. CURRENT PRICE		
		3.745
SHORTFALL		(1.228)
ALLOWABLE RETURN		0.773
PRICE IMPROVEMENT		2.001
		OR 5.7¢/GAL.

J.A. LEFEBVRE

SEPTEMBER 23, 1974

NORMAN WELLS SUPPLY AREA

MIDDLE DISTILLATE SUPPLY/DEMAND MB

	1972	1973	1974	1975	1976
DEMAND (1)					
DOMESTIC CONSUMERS	122	140	165	185	202
GOVERNMENT AGENCIES & CROWN CORPS.	215	230	255	275	295
SUB TOTAL	337	370	420	460	497
IMPERIAL OIL EXPLORATION	125	100	140	200	200
OTHER OIL EXPLORATION & HIGHWAY CONTRACTORS	138	145	215	260	303
TOTAL DEMAND	600	615	775	920	1000
SUPPLY					
NORMAN WELLS REFINERY	315	315	315	315	315
BALANCE EX EDMONTON	285	300	460	605	685
MEMO					
DEFICIT - DOMESTIC & GOVERNMENT vs NORMAN WELLS	22	55	105	145	182

(1) 1973 FORECAST

J.A. LEFEBVRE
SEPTEMBER 23, 1974

NORMAN WELLS SUPPLY AREA

TURBO FUEL SUPPLY/DEMAND   MB

	1972	1973	1974	1975	1976
TOTAL SALES	152	180	190	230	275
NORMAN WELLS PRODUCTION	80	95	95	95	95
BALANCE EX EDMONTON	72	85	95	135	180

J.A. LEFEBVRE
SEPTEMBER 23, 1974

NORMAN WELLS SUPPLY AREA

THREE-TIER PRICING SYSTEM

	SMALL CONSUMERS	(1) INDUSTRIAL	(2) TRANSIENT	EDMONTON POSTINGS
MOGAS	28.3	46.8	58.8	38.9
FURNACE	22.8	41.2	53.9	33.2
DIESEL	25.9	44.5	57.0	36.4

(1) SUPPLIED FROM NORMAN WELLS PRODUCTION; 10,000 GALS. AND OVER.

(2) SUPPLIED FROM EDMONTON.

J.A. LEFEBVRE
SEPTEMBER 23, 1974.

DOMESTIC CONSUMER POSTED PRICES COMPARISON ¢/GAL.

	FURNACE	ESSO GASOLINE	DIESEL FUEL
NORMAN WELLS	22.8	28.3	25.9
EDMONTON	33.2	38.9	36.4
TORONTO	34.4	40.0	37.7
MONTREAL	35.0	40.0	38.7
NORMAN WELLS PRICE DIFFERENTIAL	10.4/12.2	10.6/11.7	10.5/12.8

J.A. LEFEBVRE

SEPTEMBER 23, 1974

PRICE INCREASE COMPARISON

FURNACE FUEL OIL

1969 - 1974

	¢/GAL.
EDMONTON	15.2
NORMAN WELLS	* 4.7
DELTA	10.5

*IN 1970 IMPERIAL REQUESTED A 6.0¢ PRICE IMPROVEMENT TO ALLOW PROFITABLE INVESTMENT.

J.A. LEFEBVRE

SEPTEMBER 23, 1974

NORMAN WELLS SUPPLY AREA

CAPITAL EXPENDITURE $M

	1973	1974	1975	1976
REFINERY (1)	750	900	1,000	1,500
TRANSPORTATION	2,590	690	1,150	1,060
	3,340	1,590	2,150	1,560
ALLOCATED TO N.W. PRODUCTION	1,850	1,100	1,215	1,790
COST OF MONEY	425	250	280	410
PRORATED TO TOTAL N.W. SALES ¢/GAL.	1.9	1.1	1.2	1.8

(1) MAJOR INVESTMENT 1973 - 1976: TANKAGE, BUILDINGS

J.A. LEFEBVRE

SEPTEMBER 23, 1974

NORMAN WELLS SUPPLY AREA

INFLATIONARY COST $M

	1974/1973	1975/1974
MARKETING	65	75
REFINERY	105	125
PRODUCTION	80	95
	250	295
VOLUME MB	645	645
UNIT COST ¢/GAL.	1.1	1.3

MEMO - ESTIMATED RATES: 1974 - 10%; 1975 - 11%

J.A. LEFEBVRE
SEPTEMBER 23, 1974

NORMAN WELLS SUPPLY AREA

REQUIRED PRICE ADJUSTMENT ¢/GAL.

	1974	1975	
BASE:			
INFLATIONARY COST PUSH	1.1	1.3	
COST OF MONEY	1.1	1.2	
	2.2	2.5	
EFFECTIVE RECOVERY TO DATE	0.6	-	
PRICE INCREASE JANUARY 1, 1975	1.6	2.5	TOTAL 4.1

PLUS:

1) IMPACT OF EDMONTON REQUIRED SUPPORT - AMOUNT, IF ANY, TO BE DETERMINED AT THE END OF OCTOBER 1974.
2) INCREASE FREIGHT RATES - IMPLEMENTATION AT START OF 1975 NAVIGATION SEASON.
3) CHANGE IN CANADA SALES TAX.
4) IF N.C.P.C.'S HFO PRICE REMAINS UNCHANGED - ADDITIONAL 0.6¢/YEAR.

J.A. LEFEBVRE

SEPTEMBER 23, 1974.

EDMONTON SUPPLY - NORTH OF NORMAN WELLS

	BRIDGING COST	¢/GAL.
	INUVIK	AKLAVIK
FREIGHT	23.45	23.12
HAY RIVER THRUPUT	1.01	1.01
INUVIK THRUPUT	9.89	*31.31
TOTAL BRIDGING	34.35	55.44

*TOTAL COST IS HIGH BECAUSE OF CAPITAL INVESTED TO VOLUME THRUPUT RATIO.

J.A. LEFEBVRE
SEPTEMBER 23, 1974

YELLOWKNIFE/FORT SIMPSON

FURNACE FUEL OIL	¢/GAL.	
	YELLOWKNIFE	FORT SIMPSON
POSTED PRICE	42.20	39.50
LESS: BRIDGING COST (EDMONTON TO TERMINAL)	10.72	12.63
PLANT THRUPUT	7.37	7.53
BURDEN	1.00	1.00
PRODUCT COST	24.80	24.80
MARGIN	(1.69)	(6.46)

J.A. LEFEBVRE
SEPTEMBER 23, 1974.

YELLOWKNIFE/FORT SIMPSON

ESSO GASOLINE ¢/GAL.

	YELLOWKNIFE		FORT SIMPSON	
	EX N.W.	EX EDM.	EX N.W.	EX EDM.
POSTED PRICE (EXCLUDING C.S.T.)	43.80	43.80	41.20	41.20
LESS: BRIDGING COST (SOURCE TO TERMINAL)	12.44	9.91	15.36	12.83
PLANT THRUPUT	7.57	7.57	7.53	7.53
BURDEN	-	1.00	-	1.00
PRODUCT COST	(1) 25.00	23.50	(1) 25.00	23.50
MARGIN	(1.21)	1.82	(6.69)	(3.66)
WEIGHTED MARGIN	0.18		(5.29)	

(1) NORMAN WELLS POSTED PRICE REPRESENTING ABSOLUTE MINIMUM VALUE FOR NORMAN WELLS ESSO GASOLINE (EXCLUDING C.S.T.)

J.A. LEFEBVRE

NORMAN WELLS SUPPLY AREA

SUMMARY

* HEAVY FUEL OIL PRICE ADJUSTMENT OF 5.7¢/GAL.

  1) 2.0¢/GAL. EFFECTIVE IMMEDIATELY TO COVER 1974 LIFTINGS

  2) 3.7¢/GAL. APPLICABLE TO 1975 DELIVERIES (TO BE REVIEWED AT THE START OF NAVIGATION).

* BASIC PRICE INCREASE OF 4.1¢/GAL. AS OF JANUARY 1, 1975.

* CHANGE IN POSTINGS AT YELLOWKNIFE/FORT SIMPSON AND OTHER LOWER N.W.T. SUPPLY POINTS TO ALLOW COST RECOVERY AND REASONABLE MARGIN.

J.A. LEFEBVRE

SEPTEMBER 23, 1974.

Sept. 24/74.

Mr. G.N. Jenkins

Assume you will keep P.A. involved in this & lube price move.

W.A.W.

RECEIVED
SEP 24 1974
~~R. W. ARPPE~~
G N JENKINS

WILLIAM A. WEST

RG 194-74

September 20, 1974

GNJ
assume you will keep P.A. involved in this & lube pri[illegible] move
W

Mr. W. A. West
Department

To keep you advised of progress on Arctic compensation, I have attached memo from Jacques Lefebvre. Second copy can be sent to Arden if you desire.

George

G. N. Jenkins

GNJ/sb
Attach.
JALefebvre's Sept. 18/74 memo
re Arctic Imports Compensation

~~Oct 10~~

Sept. 27, 1974

Mr. W.A. West

Jacques Lefebvre and Clare Langston had an encouraging visit with Dept. of Indian and Northern Affairs on Wednesday. Attached summary is too much detail but you may wish to skim through it.

Jacques will draft a letter to the Minister for a director's signature in keeping with the suggestion of the government people. I hope to review it with you next week.

lpa

G.N. Jenkins

Enc.
Notes re mtg. Sept. 25/74
and copies of vugs.

(WAW asked some questions on this Oct 4)

JAL 2297

Highlights of the September 25, 1974 meeting with the Department of Indian and Northern Affairs.

Attendees: F.J. Joyce, Director, Norther Resources and Environment Branch
Dr. H.W. Woodward, Chief, Oil & Mineral Division
C.E. Langston, Imperial Oil Limited
J.A. Lefebvre, Imperial Oil Limited

(Mr. Joyce had to leave midway through the meeting)

Time: 2 - 4 p.m.

Imperial Request: 1) Increase price of N.C.P.C.'s Heavy Fuel Oil at Norman Wells from 10.7¢/gal. to 16.4¢/gal.

- 2.0¢/gal. effective immediately
- 3.7¢/gal. applicable to 1975 deliveries

2) Move Norman Wells overhead prices for "small consumers" by 4.1¢/gal. as of January 1, 1975, plus adjustment for Edmonton support.

3) Finally, we indicated that at some point in time we will seek to change overhead postings at Yellowknife/Fort Simpson and other lower N.W.T. supply points to allow full cost recovery and a reasonable margin. No implementation date was discussed.

Government Reaction

The Government officials were most receptive and thought our demands reasonable. They suggested that we write a letter to the Minister, under the signature of a board member, to record officially our request; it should emphasize our concerns and the future implications of holding Norman Wells prices at the current level.

Messrs. F.J. Joyce and Woodward were impressed by current cost-pushes Imperial faces in the Norman Wells supply area and the widening gap between Edmonton and Norman Wells prices. They realize the urgency of establishing a program for carefully staging price increases to correct existing anomalies.

Mr. Woodward asked us to present our package to N.C.P.C. with the objective of obtaining 5.7¢/gal. increase on Heavy Fuel Oil. He felt that the initiative to phase-in the increase should be left with the Minister. This strategy seemed very ingenious and we concurred with his suggestion.

DIANA will present our request to the Territorial Government but are fully aware that N.W.T. will oppose any upward price changes and, therefore, the Minister will have to clinch the matter after consulting with Messrs. Joyce and Woodward.

Government Reaction (cont'd.)

Dr. Woodward expressed the opinion that because of the change in energy value on the world market (and a majority Government), the time was probably right for correcting the Norman Wells pricing anomalies.

Supporting Arguments

The following arguments were used to support recommended price changes and were generally accepted by Messrs. Joyce and Woodward.

A - GENERAL

. The widening gap between Norman Wells and Edmonton prices is becoming increasing difficult to manage; the price of Norman Wells crude will utlimately be set by outside factors such as the Beaufort crude value and, therefore, if product price increases are not carefully phased-in, the day of reckoning will be traumatic.

. We are approaching quickly the time when the economics will play in favour of moving Norman Wells reduced crude southward.

. Contemporary investments and current inflation rates justify immediate price action.

. Transportation companies, lead by Northern Transportation, a crown corporation, have been passing through cost-pushes without much argument while similar attempts by Imperial have been resisted vigorously. The opposition to cost recovery has substantially contributed to today's undesirable situation.

. The unit cost of operating terminals like the one at Aklavik is extremely high and must be spread over the total Norman Wells saleable production.

. The supply/demand picture shows the ever increasing impact of Edmonton support on the Norman Wells supply area, making the small consumers/industrial accounts pricing levels inadequate.

B - SPECIFICALLY RELATED TO N.C.P.C.'s HFO

. Freezing N.C.P.C's HFO price has adverse consequences on "small consumers" product costs.

. Inasmuch as fuel represents approximately 16 to 22 % of the cost of producing electricity in the N.W.T., it seems more reasonable to increase the price of N.C.P.C.'s HFO rather than directly increasing the "small consumers" distillate price to recover HFO related operational costs. Part of the electricity generated by N.C.P.C. is consumed by industrial users.

Future Actions

1) Draft a letter to the Minister by October 4, 1974, soliciting approval for our price proposal.

2) Send the Government presentation to Western Region for review with N.C.P.C.

3) Maintain contact with Messrs. F.J. Joyce and Dr. H.W. Woodward. Mr. C.E. Langston will assure continuity.

4) Determine the impact of Edmonton support on "small consumers" prices. Results must be communicated to DIANA by October 31, 1974.

5) Make full inquiry into the accounting procedure for establishing crude value at Norman Wells.

6) Assiduous follow-up.

J.A. Lefebvre
September 27, 1974.

Attach.

MEETING WITH DEPARTMENT OF INDIAN AND NORTHERN AFFAIRS

SEPTEMBER 25, 1974

TOPICS

* NORTHERN CANADA POWER COMMISSION - PRICE OF HEAVY FUEL OIL EX NORMAN WELLS

* PRICES OF PETROLEUM PRODUCTS TO "SMALL CONSUMERS" IN NORMAN WELLS SUPPLY AREA

* YELLOWKNIFE/FORT SIMPSON POSTED PRICE SHORTFALLS

J.A. LEFEBVRE

SEPTEMBER 23, 1974.

NORMAN WELLS SUPPLY AREA

BACKGROUND TO PRICE STABILITY

1. NORMAN WELLS AGREEMENT -
   - IMPERIAL OIL LIMITED AND FEDERAL GOVERNMENT
2. LONG TERM AVAILABILITY EX NORMAN WELLS
3. GOVERNMENT DESIRE TO KEEP PRICES DOWN FOR "NORTHERNERS"
4. BASIC PRICE STABILITY ON THE PRAIRIES

PRAIRIES: 1962 - 1969 - 2.2¢
1969 - 1972 - 2.0¢

J.A. LEFEBVRE
SEPTEMBER 23, 1974

NORMAN WELLS SUPPLY AREA

CHANGE IN ENVIRONMENT

HIGHLIGHTS

* INCREASING EDMONTON SUPPORT
  1973 - 52% OF DISTILLATE DELIVERED FROM EDMONTON

* ABRUPT CHANGE IN THE VALUE OF ENERGY
  PRAIRIE: 1973 . 4.4¢
  1974 . 8.6¢
  13.0¢

* LARGE CAPITAL OUTLAY REQUIRED TO MEET STRINGENT ENVIRONMENTAL STANDARDS

* GALLOPING INFLATION

* TIGHTENING OF PRAIRIE SUPPLY

J.A. LEFEBVRE

SEPTEMBER 23, 2974

NORMAN WELLS PRODUCT TO N.C.P.C. - PRICING

NORMAN WELLS PRODUCT

	CURRENT PRICE
DIESEL P-40	22.8
DIESEL L.S.	20.5
DIESEL HEAVY X	17.9
FUEL OIL 6300	(1) U.N.

EQUIVALENT PRODUCT AT:

	EDMONTON		TORONTO	
	POSTED	NET	POSTED	NET
DIESEL #1	33.3	28.3	34.6	29.6
MARINE DIESEL	-	-	30.0	30.0
ROYAL FUEL	-	-	30.0	28.0
FUEL OIL 46	23.9	23.9	29.9	28.0
FUEL OIL 6300	21.0	21.0	25.1	25.1

(1) U.N. - UNDER NEGOTIATION

PRICES AS OF SEPTEMBER 23, 1974

ALL PRODUCT PRICES EXCLUDE CANADA SALES TAX

ROYAL FUEL, FUEL OIL 46, FUEL OIL 6300 PRICES ARE AT THE RACK

J.A. LEFEBVRE

SEPTEMBER 23, 1974

1973 HEAVY FUEL COST VS N.C.P.C.'S NET PRICE $/B

OUT OF POCKET COST

		4.973
* PRODUCING EXPENSE	0.821	
* REFINING/MARKETING	3.270	
* PAYMENT TO GOVERNMENT	0.882	
N.C.P.C. CURRENT PRICE		3.745
SHORTFALL		(1.228)
ALLOWABLE RETURN		0.773
PRICE IMPROVEMENT		2.001
		OR 5.7¢/GAL.

J.A. LEFEBVRE

SEPTEMBER 23, 1974

NORMAN WELLS SUPPLY AREA

MIDDLE DISTILLATE SUPPLY/DEMAND MB

	1972	1973	1974	1975	1976
DEMAND (1)					
DOMESTIC CONSUMERS	122	140	165	185	202
GOVERNMENT AGENCIES & CROWN CORPS.	215	230	255	275	295
SUB TOTAL	337	370	420	460	497
IMPERIAL OIL EXPLORATION	125	100	140	200	200
OTHER OIL EXPLORATION & HIGHWAY CONTRACTORS	138	145	215	260	303
TOTAL DEMAND	600	615	775	920	1000
SUPPLY					
NORMAN WELLS REFINERY	315	315	315	315	315
BALANCE EX EDMONTON	285	300	460	605	685
MEMO					
DEFICIT - DOMESTIC & GOVERNMENT vs NORMAN WELLS	22	55	105	145	182

(1) 1973 FORECAST

J.A. LEFEBVRE
SEPTEMBER 23, 1974

NORMAN WELLS SUPPLY AREA

THREE-TIER PRICING SYSTEM

	SMALL CONSUMERS	(1) INDUSTRIAL	(2) TRANSIENT	EDMONTON POSTINGS
MOGAS	28.3	46.8	58.8	38.9
FURNACE	22.8	41.2	53.9	33.2
DIESEL	25.9	44.5	57.0	36.4

(1) SUPPLIED FROM NORMAN WELLS PRODUCTION; 10,000 GALS. AND OVER.

(2) SUPPLIED FROM EDMONTON.

J.A. LEFEBVRE

SEPTEMBER 23, 1974.

DOMESTIC CONSUMER POSTED PRICES COMPARISON ¢/GAL.

	FURNACE	ESSO GASOLINE	DIESEL FUEL
NORMAN WELLS	22.8	28.3	25.9
EDMONTON	33.2	38.9	36.4
TORONTO	34.4	40.0	37.7
MONTREAL	35.0	40.0	38.7
NORMAN WELLS PRICE DIFFERENTIAL	10.4/12.2	10.6/11.7	10.5/12.8

J.A. LEFEBVRE

SEPTEMBER 23, 1974

PRICE INCREASE COMPARISON

FURNACE FUEL OIL

1969 - 1974

	¢/GAL.
EDMONTON	15.2
NORMAN WELLS	* 4.7
DELTA	10.5

*IN 1970 IMPERIAL REQUESTED A 6.0¢ PRICE IMPROVEMENT TO ALLOW PROFITABLE INVESTMENT.

J.A. LEFEBVRE
SEPTEMBER 23, 1974

NORMAN WELLS SUPPLY AREA

INFLATIONARY COST $M

	1974/1973	1975/1974
MARKETING	65	75
REFINERY	105	125
PRODUCTION	80	95
	250	295
VOLUME MB	645	645
UNIT COST ¢/GAL.	1.1	1.3

MEMO - ESTIMATED RATES: 1974 - 10%; 1975 - 11%

J.A. LEFEBVRE

SEPTEMBER 23, 1974

NORMAN WELLS SUPPLY AREA

CAPITAL EXPENDITURE $M

	1973	1974	1975	1976
REFINERY (1)	750	900	1,000	1,500
TRANSPORTATION	2,590	690	1,150	1,060
	3,340	1,590	2,150	1,560
ALLOCATED TO N.W. PRODUCTION	1,850	1,100	1,215	1,790
COST OF MONEY	425	250	280	410
PRORATED TO TOTAL N.W. SALES ¢/GAL.	1.9	1.1	1.2	1.8

(1) MAJOR INVESTMENT 1973 - 1976: TANKAGE, BUILDINGS

J.A. LEFEBVRE

SEPTEMBER 23, 1974

NORMAN WELLS SUPPLY AREA

REQUIRED PRICE ADJUSTMENT	¢/GAL.		
	1974	1975	
BASE:			
INFLATIONARY COST PUSH	1.1	1.3	
COST OF MONEY	1.1	1.2	
	2.2	2.5	
EFFECTIVE RECOVERY TO DATE	0.6	-	
PRICE INCREASE JANUARY 1, 1975	1.6	2.5	TOTAL 4.1

PLUS:

1) IMPACT OF EDMONTON REQUIRED SUPPORT - AMOUNT, IF ANY, TO BE DETERMINED AT THE END OF OCTOBER 1974.
2) INCREASE FREIGHT RATES - IMPLEMENTATION AT START OF 1975 NAVIGATION SEASON.
3) CHANGE IN CANADA SALES TAX.
4) IF N.C.P.C.'S HFO PRICE REMAINS UNCHANGED - ADDITIONAL 0.6¢/YEAR.

J.A. LEFEBVRE

SEPTEMBER 23, 1974.

EDMONTON SUPPLY - NORTH OF NORMAN WELLS

BRIDGING COST ¢/GAL.

	INUVIK	AKLAVIK
FREIGHT	23.45	23.12
HAY RIVER THRUPUT	1.01	1.01
INUVIK THRUPUT	9.89	*31.31
TOTAL BRIDGING	34.35	55.44

*TOTAL COST IS HIGH BECAUSE OF CAPITAL INVESTED TO VOLUME THRUPUT RATIO.

J.A. LEFEBVRE

SEPTEMBER 23, 1974

YELLOWKNIFE/FORT SIMPSON

FURNACE FUEL OIL	¢/GAL.	
	YELLOWKNIFE	FORT SIMPSON
POSTED PRICE	42.20	39.50
LESS: BRIDGING COST		
(EDMONTON TO TERMINAL)	10.72	12.63
PLANT THRUPUT	7.37	7.53
BURDEN	1.00	1.00
PRODUCT COST	24.80	24.80
MARGIN	(1.69)	(6.46)

J.A. LEFEBVRE

SEPTEMBER 23, 1974.

YELLOWKNIFE/FORT SIMPSON

ESSO GASOLINE ¢/GAL.

	YELLOWKNIFE		FORT SIMPSON	
	EX N.W.	EX EDM.	EX N.W.	EX EDM.
POSTED PRICE (EXCLUDING C.S.T.)	43.80	43.80	41.20	41.20
LESS: BRIDGING COST (SOURCE TO TERMINAL)	12.44	9.91	15.36	12.83
PLANT THRUPUT	7.57	7.57	7.53	7.53
BURDEN	-	1.00	-	1.00
PRODUCT COST	(1) 25.00	23.50	(1) 25.00	23.50
MARGIN	(1.21)	1.82	(6.69)	(3.66)
WEIGHTED MARGIN	0.18		(5.29)	

(1) NORMAN WELLS POSTED PRICE REPRESENTING ABSOLUTE MINIMUM VALUE FOR NORMAN WELLS ESSO GASOLINE (EXCLUDING C.S.T.)

J.A. LEFEBVRE

SEPTEMBER 23, 1974

NORMAN WELLS SUPPLY AREA

SUMMARY

* HEAVY FUEL OIL PRICE ADJUSTMENT OF 5.7¢/GAL.
  1) 2.0¢/GAL. EFFECTIVE IMMEDIATELY TO COVER 1974 LIFTINGS
  2) 3.7¢/GAL. APPLICABLE TO 1975 DELIVERIES (TO BE REVIEWED AT THE START OF NAVIGATION).

* BASIC PRICE INCREASE OF 4.1¢/GAL. TO SMALL CONSUMERS ON OVERHEAD PRODUCTS AS OF JANUARY 1, 1975.

* CHANGE IN OVERHEAD PRODUCT POSTINGS AT YELLOWKNIFE/FORT SIMPSON AND OTHER LOWER N.W.T. SUPPLY POINTS TO ALLOW COST RECOVERY AND REASONABLE MARGIN.

J.A. LEFEBVRE

SEPTEMBER 23, 1974.

Mr. A. [illegible] Jenkins
for your information. We have Comptroller's people interested in our concern.
[illegible]

MEMORANDUM

MARKETING DEPARTMENT

September 27, 1974.

Mr. R. M. Shields
Room 643
BUILDING

RECEIVED
OCT 1 1974
G. [illegible] JENKINS

Norman Wells Settlement

It has been brought to our attention by Mr. J. A. Lefebvre, Product Advisor, that the Marketing Price Structure for products refined from Norman Wells derived crude is set at a significantly lower posted price than product shipped into Norman Wells area from Edmonton. Schedule A, attached, indicates the posted prices at two locations, Inuvik and Norman Wells, as a basis for this contention. This pricing structure I understand has been set up, under Federal Government surveillance, in order to keep prices down to residents of the Norman Wells area when compared to demand for products coming from "transient customers". Imperial's more expensive sales are in essence coming from Edmonton derived product, and Marketing projections indicate that demand for product originating in Edmonton will increase substantially in the next two years.

We are concerned therefore that the influence of the higher priced Edmonton product is artificially increasing the Marketing Department sales realization value which is used to calculate the crude oil selling price in the "Redbook Settlement" with the Federal Government. Discounting may reduce the spread between transient and the small customers actual prices, hence it seems appropriate to verify, on a test basis, if prices being charged to customers in the Norman Wells area do in fact reflect our concern. We therefore request that a sample of customers be selected with the assistance of the Operations & Co-ordination group in Edmonton to verify that these pricing differences do exist and to what extent.

If the sample confirms our assessment of the pricing structure, the next step would be to evaluate if this structure has an effect on the computation of crude oil value and to what extent. Should this be sufficiently encouraging, then perhaps some change in the retrieval of Norman Wells derived sales, based

continued .....

Mr. R. M. Shields

September 27, 1974.

on class of trade, should be investigated. It would be our assumption that any changes should be approved, in principle, with the Federal Government.

Kindly advise Mr. J. A. Lefebvre of the results of your sample, as soon as it becomes available. A suggested target date for having the sample results finalized is October 31, 1974.

ALLAN J. WELSH
Marketing Comptroller's

AJW:cas

Attachment:

c.c. Messrs. J. A. Lefebvre
D. D. Lougheed
B. G. Rosser
G. A. Fullerton
P. R. Craig

SCHEDULE A

INDUSTRIAL PRICES

NORMAN WELLS PRODUCTS

BY TYPE OF CUSTOMER

	SMALL 1)	INDUSTRIAL 2)	TRANSIENT 2) ¢/GAL.	TRANSIENT 2) % OVER SMALL CUSTOMER
INUVIK				
Esso Avgas 100/130	-	72.8	80.9	N/A
Esso Turbo B	-	56.0	66.6	N/A
Esso Gasoline	35.4	53.7	65.8	85.9
Esso Diesel Fuel P-40	34.0	52.1	65.0	91.2
Esso Diesel Fuel P-50	35.0	53.1	66.0	88.6
Esso Heating Oil P-40	30.9	48.7	61.9	100.3
Esso Heating Oil P-50	31.9	49.7	62.9	97.2
NORMAN WELLS				
Esso Avgas 100/130	-	65.0	73.9	N/A
Esso Turbo B	-	48.6	59.6	N/A
Esso Gasoline	28.3	46.8	58.8	107.8
Esso Diesel Fuel P-40	25.9	44.5	57.0	120.1
Esso Diesel Fuel P-50	26.9	45.5	58.0	122.3
Esso Heating Oil P-40	22.8	41.2	53.9	136.4
Esso Heating Oil P-50	23.8	42.2	54.9	130.7

Note:-
Prices Include Federal Sales Tax

1) Supplied from Norman Wells production

2) Supplied just from Norman Wells production, but due to increased demand from small customer there is basically no Norman Wells derived ~~product~~ distillate available for this class of trade.

3) Supplied from Edmonton

AJW:cas
Sept. 27/74

ESSO

IMPERIAL OIL LIMITED

MARKETING DEPARTMENT

Vice President & General Manager
WILLIAM A. WEST

Assistant General Managers
CHARLES A. HAYLES
GEORGE N. JENKINS
GEORGE R. WISENER

111 St. Clair Avenue West, Toronto, Canada M5W 1K3

October 3, 1974.

Dr. H.W. Woodward,
Chief,
Oil & Mineral Division,
Dept. of Indian & Northern Affairs,
Centennial Tower,
400 Laurier Ave. W.,
Ottawa, Canada,
K1A 0H4.

RECEIVED
OCT 4 1974
G. N. JENKINS

Dear Dr. Woodward:

At our recent meeting in Ottawa you asked that we send you all available data related to the effect of Heavy Fuel Oil price increases on N.C.P.C.'s cost of generating electricity.

Looking through Mr. George Brydon's Norman Wells files, we came across a copy of a memorandum discussing this particular subject. It seems that N.C.P.C. representatives, at a meeting on May 28, 1973, attempted to estimate the probable effect of fuel price changes on the cost of generating electricity. Various figures were quoted regarding the relationship between the price of petroleum products and the overall cost of electricity.

The numbers discussed varied from 16 to 18% up to as high as 22%. The actual percentage increase in electricity cost for various settlements is dependent upon the distance from the fuel supply point. The further one is removed from Norman Wells the smaller the percentage increase; i.e. if the freight component in the total petroleum product cost was 50% at some outlying community, the contemplated increase of 5.7 C.P.G. on Heavy Fuel Oil for example, would be considerably less on a percentage basis than at Norman Wells where there is no freight component.

Cont'd...

Dr. H.W. Woodward October 3, 1974.

As requested by Mr. F.J. Joyce, we are also enclosing a copy of the graph used by Mr. George Brydon at a meeting with DIANA, portraying the middle distillate demand/supply balance for Norman Wells and North. Please excuse the quality of the reproduction as we could not locate the original document.

We hope that we were able to answer your queries satisfactorily and that we will again have the opportunity to meet.

Cordially yours,

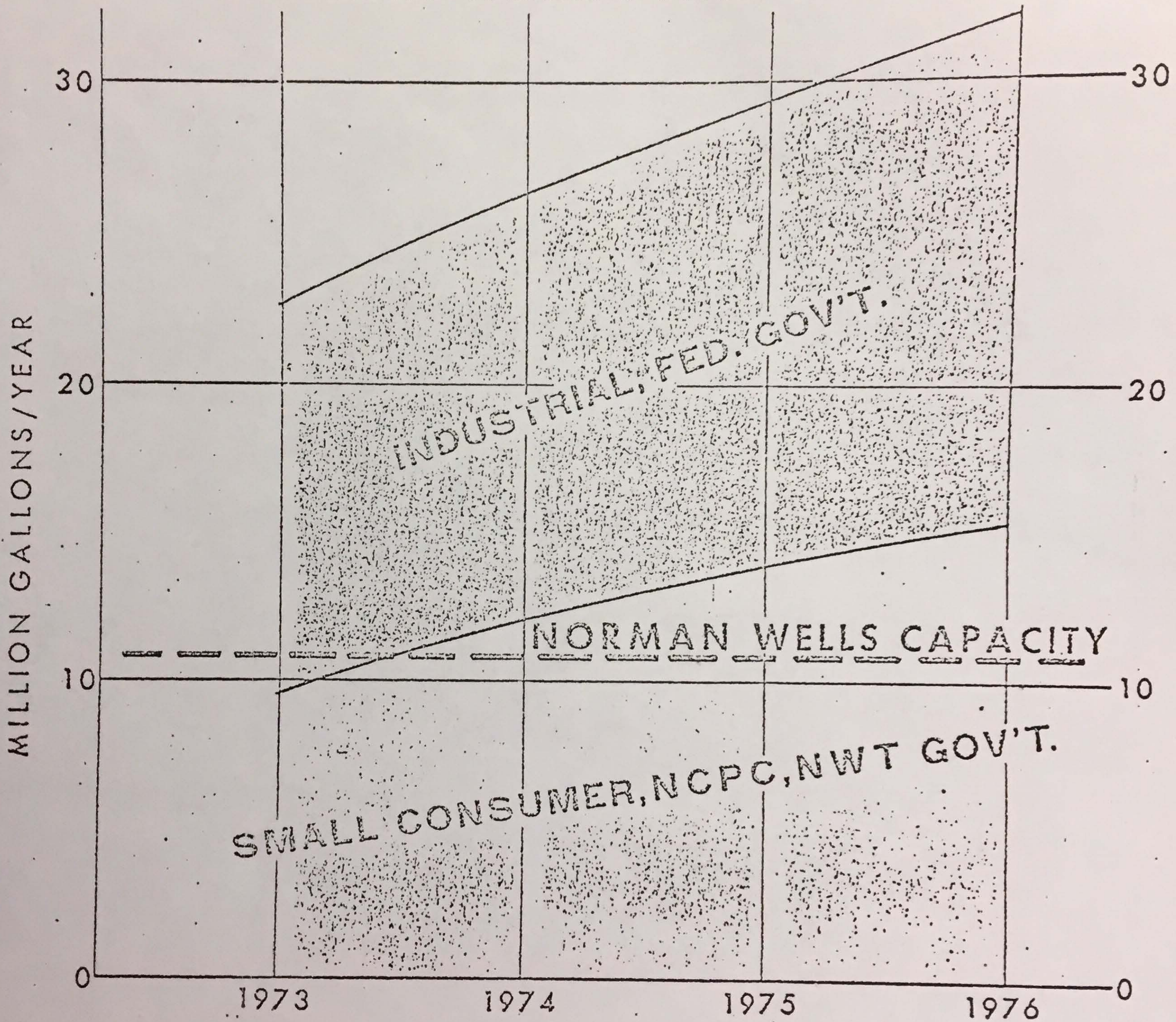
J.A. Lefebvre,
Product Advisor.

JAL/jd

bcc:	G.N. Jenkins	Room 1815
	W.P. Moher	Room 1851
	G.A. Fullerton	Edmonton
	C.E. Langston	Ottawa
	G.E. Sorli	Room 1846
	J.D. Macgregor	Room 674

(all with attachment)

MIDDLE DISTILLATE DEMAND/SUPPLY
NORMAN WELLS AND NORTH



M E M O R A N D U M / MARKETING DEPARTMENT

October 4, 1974.

RECEIVED
OCT 4 1974
G. N. JENKINS

Posted Prices - N.W.T.

Mr. D.R. English,
Edmonton

We are sending a study of posted prices at Hay River, Yellowknife, Fort Simpson and Fort Smith. The adjoining letter by Mr. W.R. Kennedy explains the work that has been done and suggests that we ask Mr. Don Peters to prepare a price change application.

I concur with Mr. Kennedy's recommendation that the O&PC field unit should prepare the necessary documentation for the price move at these locations inasmuch as posted prices are the responsibility of the Operations Group. I would suggest, however, that in this particular case Wholesale Division must play an active role because of its close relationship with N.W.T. and the political ramifications of a major price change affecting the Territorial Government.

You should contact Mr. Peters and develop a strategy to bring our prices to an acceptable level. There is some urgency to this matter since we are talking of over $1,000,000 additional revenue if we can get our prices in line.

We have to recognize that protracted "hardship case" negotiations with EM&R will delay the implementation schedule. Furthermore, we will have to obtain permission from the Central Office Pricing Committee, chaired by Mr. A.R. Haynes, to act upon the price change application which will be originating from your office.

We would appreciate receiving your comments once you digest the attached information. I am also including copies of correspondence with Pricing Co-ordination on the subject of posted prices in the lower part of the Northwestern Territories.

J.A. Lefebvre.

JAL/jd
Attach.

cc: G.N. Jenkins	Room 1815	N/A	
W.P. Moher	Room 1851	"	
G.E. Sorli	Room 1846	"	
G.A. Fullerton	Edmonton	"	
J.K. Levins	Room 1640	"	

OCTOBER 16, 1974.

Messrs: G.N. Jenkins Room 1815
W.P. Moher Room 1851
G.E. Sorli Room 1846
G.A. Fullerton Edmonton

FOR YOUR INFORMATION.

J.A. LEFEBVRE.

OMMISSIONER OF THE NORTHWEST TERRITORIES

OCTOBER 10, 1974

Hodgson, Commissioner
Hancock, Assistant Commissioner - Programs
. Cotterill, Assistant Commissioner - Administration
Holden, Treasurer
Horsfield
Underhill
Fullerton
Lefebvre

product prices in the Norman Wells supply area (1 hour).

rctic Gas Study Limited - Canadian need for arctic gas atives to CAGSL transportation system (1 hour).

SUMMARY:

1. Pricing: A one-hour presentation on prices was made by Mr. G.A. Fullerton using the same basic arguments developed for review with the Department of Indian and Northern Affairs in Ottawa. In summary, Imperial is seeking a 4.1¢/gal. price hike on "small consumers" distillate sales and a 5.7¢/gal. increase on Northern Canada Power Commission's Heavy Fuel Oil volume.

   The Commissioner and his staff did not object to our contention that prices in the Norman Wells supply area, and in the lower part of the Northwestern Territories, should be adjusted to cover Imperial's increased operational costs. Furthermore, the Commissioner stated very categorically that he would not interfere with our attempts to rationalize the pricing structure of Norman Wells production which is strictly a Federal responsibility.

   One area of concern to G.N.W.T. personnel is the widening gap between Fort Simpson and Norman Wells prices. They recommended that we weigh the high prices at Fort Simpson with the lower ones at Norman Wells and then use only one set of numbers, excluding transportation costs, for both communities. We pointed out that the pricing arrangement in the Norman Wells supply area was already very complex and that the proposed procedure would complicate matters even more.

   It was an informational meeting which achieved the purpose of making the Commissioner aware of our negotiations with the Department of Indian Affairs and Northern Canada Power Commission.

Cont'd.....

MEETING WITH THE COMMISSIONER OF THE NORTHWEST TERRITORIES

OCTOBER 10, 1974

ATTENDEES: N.W.T. S.M. Hodgson, Commissioner
S.W. Hancock, Assistant Commissioner - Programs
E.M.R. Cotterill, Assistant Commissioner - Administration
D. Holden, Treasurer

IMPERIAL R. Horsfield
J.C. Underhill
G.A. Fullerton
J.A. Lefebvre

DURATION: 2 Hours

TOPICS: (1) Petroleum product prices in the Norman Wells supply area (1 hour).
(2) Canadian Arctic Gas Study Limited - Canadian need for arctic gas and alternatives to CAGSL transportation system (1 hour).

SUMMARY:

1. Pricing: A one-hour presentation on prices was made by Mr. G.A. Fullerton using the same basic arguments developed for review with the Department of Indian and Northern Affairs in Ottawa. In summary, Imperial is seeking a 4.1¢/gal. price hike on "small consumers" distillate sales and a 5.7¢/gal. increase on Northern Canada Power Commission's Heavy Fuel Oil volume.

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   It was an informational meeting which achieved the purpose of making the Commissioner aware of our negotiations with the Department of Indian Affairs and Northern Canada Power Commission.

Cont'd.....

In the week of October 14, 1974, Mr. G.A. Fullerton will meet with Northern Canada Power Commission to present our marketing position at Norman Wells and North. He will seek approval of the proposed change in the Heavy Fuel Oil price. Concomitantly we will send a letter to the Minister of DIANA requesting acceptance of our proposal.

2. CAGSL: Mr. J.C. Underhill outlined the need to bring natural gas from the Mackenzie Delta into southern Canadian markets and explained the advantages of the CAGSL proposal over other alternatives; namely, the El Paso and the Maple Leaf lines.

October 16, 1974

Mr. W.A. West

With regard to Arden's question:

Yes, we will recover full amount of shortfall. We will under-recover by 1.2¢/gallon to 3.1¢/gallon on mogas, turbo and avgas, but over-recover by 2.5¢ to 3.0¢ on diesel and stove. Since diesel is big volume item, in total we over-recover by $670 M.

Since part of our contract is on cost-plus basis, we will have to give back approximately $200 M to the government as indicated in footnote (2). However, we will end up with $7.8 M̄ in compensation which is net over recovery of about $0.5 M̄.

This was more than we expected to recover and a good job on the part of Jacques and Dennis.

G.N. JENKINS

GNJ/pa
Enc.
Oct. 3/74 note from ARH
and file re Arctic Imports
Compensation

September 20, 1974

Mr. W. A. West
Department

To keep you advised of progress on Arctic compensation, I have attached memo from Jacques Lefebvre. Second copy can be sent to Arden if you desire.

George

G. N. Jenkins

GNJ/sb
Attach.
JALefebvre's Sept. 18/74 memo
re Arctic Imports Compensation

DEPARTMEN

18, 1974

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r, Assistant
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bvre

Attach.

MEMORANDUM

MARKETING DEPARTMENT

September 18, 1974

Arctic Imports
Compensation

Mr. G. N. Jenkins
Department

EM&R advises that Mr. W. H. Hopper, Assistant Deputy Minister, EM&R, has recommended to Mr. T. K. Shoyama, Deputy Minister, the adoption of the change in product Host Government Take since November 30, 1973 as the basis for compensation of Arctic imports. Product HGT compensation ranges from $5.75 to $6.25/B and, as such, it should bring our Eastern Arctic operations to a satisfactory level of return.

Foreign product movements into the Arctic will total 1,300M barrels this season; therefore, the amount of money involved in this northern compensation program is approximately $7,800,000.

The attached table portrays, by product, the impact of the HGT compensation level on 1972 to 1974 laid-down cost unrecovery through posted price action. It should be noted that the products not listed are supplied from domestic refineries.

Confirmation of the "HGT delta" approach to Arctic compensation is expected tomorrow, or early next week at the latest.

J. A. Lefebvre

JAL/sb
Attach.

c.c. Mr. W. P. Moher
Mr. G. E. Sorli

P.S.: September 19, 1974 - HGT has been approved; awaiting written confirmation.

IMPACT OF HGT COMPENSATION ON
LAID-DOWN COST UNRECOVERY (1)

¢/GL.

	Mogas	Turbo A-1	Avgas 100/130	Diesel	Stove	TOTAL
Volumes (Est.) MB	26	330	16	810	118	1,300
1973 vs. 1972 LDC Unrecovery	8.6	3.3	7.3	2.9	3.5	
1974 vs. 1973 LDC Unrecovery	10.9	14.4	11.2	11.1	11.1	
Total Shortfall	19.5	17.7	18.5	14.0	14.6	
HGT Compensation	16.4/17.9	16.5	16.5	16.5	17.6	
△	(3.1)/(1.6)	(1.2)	(2.0)	2.5	3.0	

NET DOLLAR OVERAGE (2) $670,000

(1) Unrecovery through posted price action

(2) $200,000 of which will be remitted to Government through Goose Bay and Churchill audits

J.A. Lefebvre
September 18, 1974

MEMORANDUM / MARKETING DEPARTMENT

October 31, 1974

RECEIVED
NOV 1 1974
G. N. JENKINS

Mr. Murray O. Thorner
Room 1605
BUILDING

Arctic Pricing

Logistics have reported at PPMG a 5MM$ under budget position for Arctic Supply. Concern was raised over the possibility of Marketing over-charging customers and overstating planned revenue in response to Logistics' planned expense.

We are assured by Wholesale Operations that the Logistics forecast variation has not been reflected in Marketing PLAN revenues or pricing activities. This position is supported by the following explanation:

1. Marketing PLAN Revenue - The affected regions (Quebec and Prairie) revenue PLANs are based on response to the regional posted price action input into the system by the Pricing Department in accordance with government guidelines. SIRVs in place for Quebec and Prairie reflect costing at Montreal and Edmonton. No consideration is given to imports in the development of the SIRV costs. PLAN revenue will be in error to the extent to which actual Arctic prices differ from the standard price move in PLAN.

2. Marketing Actual Pricing Activities - Prices for the current year's supply are based on actual costs in place at bid time and are not related to Logistic PLAN costs. All pricing activity has been developed by Marketing and Logistics and has been presented to the Federal Government for approval.

3. Logistic Cost Analysis - The 5MM$ under budget position for Arctic imports is due to follow.

		MM$
i) Over-estimation of distillate costs Actual $13.61/bbl vs. forecast $16.95/bbl 762M bbl @ $2.34/bbl	=	1.4

			MM$
ii)	Use of Montreal S.A.S. Airlines firm price contract volume to supply Goose Bay Turbo demand Actual $6.35/bbl vs the forecast of $17.13/bbl 150M bbl @ $10.78	=	1.6
iii)	Over-estimate of Turbo costs excluding S.A.S. volume Actual $13.89/bbl vs forecast $17.13/bbl 100M bbl @ $3.24/bbl	=	0.3
iv)	Over-estimate of Turbo volume 85M bbl @ $17.13	=	1.5
	TOTAL		4.8

Logistics decision to supply Goose Bay with S.A.S. contracted volume was not considered in the development of the price for Goose Bay volume.

In response to Bill West's enquiry, the total high Arctic Imperial volume amounts to approximately 3.0MM bbl/year of which 0.7MM bbl is supplied ex Norman Wells, 0.2MM bbl ex Edmonton, 1.4MM bbl import and the balance ex Montreal.

I trust the above will answer the questions regarding the Arctic.

M.J. KIRWIN
Financial Advisor

MJK/dw
cc: G.N. Jenkins
G.R. Wisener
W.P. Moher
J. Lefebvre

b.c.c. Messrs. G.A. Fullerton, Edmonton
R. Horsfield, Calgary
C.E. Langston, Ottawa
J.D. Macgregor, Building

G.N. Jenkins
W.P. Moher
G.E. Sorli
J.A. Lefebvre

L LIMITED

TMENT

ir Avenue West, Toronto, Canada M5W 1K3

r 4, 1974.

Dear Mr. Buchanan:

On September 25, 1974, Messrs. C.E. Langston and J.A. Lefebvre of our Company met in Ottawa with Mr. J.F. Joyce and Dr. H.W. Woodward to discuss pricing inadequacies in the Norman Wells Refinery supply area. After reviewing the suggested price adjustments, your officials recommended that we register our proposal directly with your office.

Imperial manages a production and refinery operation at Norman Wells in which the Government is a one third partner in the crude production activity. The Government receives a proportionate share of the crude value at a computed well head price which is the net of total sales revenue, expenses and processing allowance. For your convenience we enclose a precis of the Norman Wells Unit Agreement.

The Agreement also gives the Department of Indian and Northern Affairs the authority to regulate prices of products refined at Norman Wells. Under this arrangement, Imperial has been granted permission to raise consumer prices, in the last four years, by an amount of 4.7¢ per gallon excluding Canada Sales Tax and freight rate variations. The resultant realization improvement has been insufficient and has kept return on capital employed at a depressed level.

The attached documentation supports Imperial's proposal for Government approval of a basic price increase of 4.1¢ per gallon, as of January 1, 1975, on gasoline and distillate sold to small consumers. The adjustment allows recovery of the 1974/1975 inflationary cost push and a return on new capital outlay. In addition, if Edmonton support is needed to supplement the "small consumers" distillate demand, the higher cost of the marginal support will be weighted and added to the basic 4.1¢ per gallon.

Cont'd....

IMPERIAL OIL LIMITED

MARKETING DEPARTMENT

Vice President & General Manager
WILLIAM A. WEST

Assistant General Managers
CHARLES A. HAYLES
GEORGE N. JENKINS
GEORGE R. WISENER

111 St. Clair Avenue West, Toronto, Canada M5W 1K3

November 4, 1974.

The Honourable Judd Buchanan, P.C., M.P.,
Minister of Indian and Northern Affairs,
Centennial Tower,
400 Laurier Avenue West,
OTTAWA, Ontario,
K1A OH4.

Dear Mr. Buchanan:

On September 25, 1974, Messrs. C.E. Langston and J.A. Lefebvre of our Company met in Ottawa with Mr. J.F. Joyce and Dr. H.W. Woodward to discuss pricing inadequacies in the Norman Wells Refinery supply area. After reviewing the suggested price adjustments, your officials recommended that we register our proposal directly with your office.

Imperial manages a production and refinery operation at Norman Wells in which the Government is a one third partner in the crude production activity. The Government receives a proportionate share of the crude value at a computed well head price which is the net of total sales revenue, expenses and processing allowance. For your convenience we enclose a precis of the Norman Wells Unit Agreement.

The Agreement also gives the Department of Indian and Northern Affairs the authority to regulate prices of products refined at Norman Wells. Under this arrangement, Imperial has been granted permission to raise consumer prices, in the last four years, by an amount of 4.7¢ per gallon excluding Canada Sales Tax and freight rate variations. The resultant realization improvement has been insufficient and has kept return on capital employed at a depressed level.

The attached documentation supports Imperial's proposal for Government approval of a basic price increase of 4.1¢ per gallon, as of January 1, 1975, on gasoline and distillate sold to small consumers. The adjustment allows recovery of the 1974/1975 inflationary cost push and a return on new capital outlay. In addition, if Edmonton support is needed to supplement the "small consumers" distillate demand, the higher cost of the marginal support will be weighted and added to the basic 4.1¢ per gallon.

Cont'd....

The Hon. Judd Buchanan, P.C., M.P.,
Ottawa
November 4, 1974

The gap between the Norman Wells and Edmonton prices is enlarging drastically; prices at Edmonton are now over 10¢ per gallon higher than at Norman Wells. Since all prices in the Territories will ultimately be set by outside factors, such as the MacKenzie Delta Crude value and/or overwhelming supplies from Edmonton, it is crucial that we carefully phase-in price changes in the area, and prevent any prompt and traumatic price jump in the short term.

Another concern is the price of Heavy Fuel Oil sold out of Norman Wells to Northern Canada Power Commission. Unfortunately, it has been pegged at an abnormally low level. As a result, Heavy Fuel Oil is not carrying its fair share of the producing, refining and marketing burden and, therefore, has a detrimental effect on the costing of other products, such as distillate to small consumers. The existing price is also unrealistic in comparison to the worldwide value for this commodity. As a matter of interest, the net customer price in Edmonton is 21.0¢ per gallon plus freight versus the current N.C.P.C. price of 10.7¢ per gallon.

An immediate price increase of 5.7¢ per gallon covering 1974 shipments is requested on Heavy Fuel Oil to recover Imperial's out-of-pocket cost and all allowable margin on crude processed. This action would help to improve the inadequate profitability of the Norman Wells operation. Moreover, if Imperial cannot recoup its direct expenses on Heavy Fuel Oil from N.C.P.C., and other Heavy Fuel Oil accounts, the out-of-pocket costs will flow through to the "small consumers" market segment. Inasmuch as fuel represents approximately 16 to 22% of the total cost of producing electricity in the N.W.T., it seems more reasonable to move the price of N.C.P.C.'s Heavy Fuel Oil upward rather than directly increasing "small consumers" product prices to recover Heavy Fuel Oil related costs. Furthermore, part of the power generated by N.C.P.C. is consumed by industrial users.

Inevitably, due to population growth, outside supplies, inflation, cost of capital, the prices at Norman Wells and North will have to rise considerably in the next few years. It is, therefore, important that we stage price changes in a fashion that will preclude a sudden and drastic leap in energy cost. This approach is consistent with the policy adopted by the Federal Government for minimizing the impact of catapulting international crude prices on Canada. In the longer term, fuels must also be priced at full commodity value so that sound decisions can be made about alternate sources of energy supply.

I hope that you will find the explanations contained in this letter and the attachment satisfactory.

Yours very truly,

W Aulest

WAW/jd
Enc.

ATTACHMENT 1

PRECIS OF NORMAN WELLS UNIT AGREEMENT BETWEEN IMPERIAL OIL LIMITED AND THE GOVERNMENT OF CANADA

DATE	July 21, 1944
PERIOD	21 years. Amended to 23 years. Renewable for two further 21-year periods.
EXTENSION	June 9, 1967. Agreement extended for two years, to May 2, 1968.
RENEWAL	June 6, 1968. Agreement renewed for 21 years, commencing May 2, 1966. Renewable on May 2, 1987.
THE LANDS (Clause 2)	Proven Area - 7,939 acres. Norman Wells oilfield. Participating Area - 132,642 acres. Various blocks extending approximately 70 miles downstream from Norman Wells. All surrendered.
OPERATOR (Clause 5a)	Imperial Oil Limited
FUEL (Clause 6)	Fuel used in operations is free of royalty and other charges.
DIVISION OF INTEREST (Clause 7)	Government of Canada - 1/3 Imperial - 2/3

Cont'd...

ROYALTY (Clauses 8 and 9)	Imperial will pay 5% royalty on Imperial's 2/3 share of oil "produced and saved." Government entitled to royalty payments in cash, based on average "wellhead price per barrel." To be paid annually by March 20.
WELLHEAD VALUE (Clause 15 (d)	Wellhead value of crude oil = $\frac{\text{Total Sales Revenue - Refinery Costs}}{\text{Crude Oil Processed at Refinery (bbls.)}}$ Will be changed to straight net wellhead sales price if, as, and/or when pipeline installed (Clause 16).
GOVERNMENT REVENUE FROM SALES (Clause 18)	By March 20, Imperial will remit to Government dollar value of Government's 1/3 share of wellhead value of crude oil saved and sold, less 1/3 of producing costs, less 10% of 1/3 of such costs as "management fee."
ACCOUNTING (Clause 19)	Imperial responsible for keeping separate set of books of accounts and records in respect of all operations, and such records will be subject to examination by Government auditors.

OCTOBER 7, 1974.

ATTACHMENT 2

NORMAN WELLS SUPPLY AREA

JUSTIFICATION OF THE PRICE CHANGE PROPOSAL

Investment

- Since 1973 Imperial has been investing quite heavily in the Northwest Territories to modernize its facilities. The following table portrays the current investment profile for Norman Wells supply area.

Capital Expenditure

$M	1974	1975
Refinery	900	1,000
Transportation (N.W.T.)	690	1,150
	1,590	2,150
Allocation to N.W. production	1,100	1,215
Cost of Money	250	280
Volume MB*	645	645
Prorated to N.W. Sales C.P.G.	1.1	1.2

*Total saleable volume ex Norman Wells.

- Through the period considered, the major share of the refinery investment is in tankage and buildings; Transportation capital outlay is being spent on modernizing terminal facilities.

Inflation

- The 1974 and 1975 inflationary cost push warrants an increase of 2.4 C.P.G. on all saleable products manufactured at Norman Wells.

Inflationary Cost

$M	1974/1973	1975/1974
Marketing	65	75
Refinery	105	125
Production	80	95
	250	295
Volume MB	645	645
Unit Cost C.P.G.	1.1	1.3

- Through numerous efficiency programs, Imperial succeeded in holding down costs in 1973. It is expected, however, that the full brunt of inflation will be felt in the next two years.

- The estimated rates of inflation used to calculate the tabled costs were 10% in 1974 and 11% in 1975. These are quite convervative in light of the generally accepted forecast. For example, it is known that railway rates from Edmonton to Hay River will rise by 18% in 1975.

Edmonton Support Costs

- The growing distillate demand at Norman Wells and North necessitates increasing supply from the Edmonton Refinery to support the small consumers/Government market segment.

SMALL CONSUMERS/GOVERNMENT AGENCIES & CORPORATIONS

MB — MIDDLE DISTILLATE SUPPLY/DEMAND

Demand	1973	1974	1975	1976
Small Consumers	140	165	185	202
Government Agencies & Corporations	230	255	275	295
Total Demand	370	420	460	497
Supply				
Norman Wells Refinery*	315	315	315	315
Deficit				
Small Consumers & Govt. vs. Norman Wells Supply	55	105	145	182

* Maximum distillate yield at Norman Wells Refinery.

- The tabular representation shows that the Norman Wells supply is short of meeting the small consumers and Government distillate requirements which form the market segment enjoying low Norman Wells domestic prices. Costly support from Edmonton makes up the Norman Wells supply deficit and inflates the "small consumers" pricing structure. The cost increment will be added to the amount required to cover the inflationary and capital cost. This data will be fully documented at year end.

Pricing Action

A. Small Consumers

- The unit costs outlined under the two first headings substantiates the proposed increase of 4.1 C.P.G. to "small consumers" on January 1, 1975.

Required Price Adjustment	C.P.G.	
	1974	1975
Inflationary cost push	1.1	1.3
Cost of Money	1.1	1.2
	2.2	2.5
Effective recovery to date*	0.6	-
	1.6	2.5 TOTAL 4.1

* In 1974, the "small consumers" prices were raised by 1.0 C.P.G. but, because of the implementation date of June 1, 1974, the effective unit increase over the total year will be 0.6 C.P.G.

- To this basic price change, other cost push components will be added:
  a) Impact of required Edmonton support.
  b) Increased freight rates. Implementation will be made at the start of the 1975 navigation season.
  c) Change in Canada Sales Tax as it occurs.
- The proposed price change keeps Imperial whole but does not improve the overall return on Norman Wells operation over 1973.

B. Heavy Fuel Oil - Northern Canada Power Commission

- N.C.P.C.'s Heavy Fuel Oil price at Norman Wells is pegged at an unrealistic level and is adversely affecting the return on the Norman Wells operations. In addition to the 4.1 C.P.G. increase proposed for overhead products, Heavy Fuel Oil sold to the subject account should carry another 1.6 C.P.G. to bring the depressed Heavy Fuel Oil price to a level which will permit recovery of its share of the Norman Wells operation burden and improve overall return on capital employed.
- The low N.C.P.C. price policy poses exceedingly severe problems of allocating costs fairly to all products manufactured at Norman Wells. Out-of-pocket costs related to HFO must flow through to the small consumers if unrecovered from N.C.P.C.

1973 Heavy Fuel Costs vs. N.C.P.C.'s Net Price		$/B
Out-of-Pocket Cost		
Producing Expense	0.821	
Refining/Marketing	3.270	
Payment to Government	0.882	4.973*
N.C.P.C. Current Price		3,745
Shortfall		(1.228)
Allowable Return**		0.773
Price Improvement on 1974 Shipments		2.001
		or 5.7 C.P.G.

*The cost of $4.973/B assumes zero value for Imperial's share of crude.

**The Norman Wells Unit Agreement gives Imperial a 1.5 C.P.G. allowance on all crude processed. In 1973, 953,688 barrels of crude were distilled at the refinery to produce 647,849 barrels of product available for sale resulting in a refinery yield of 0.6793. Hence the allowable on saleable product is $0.773/bbl. (1.5 x 35 ÷ 0.6793).

- The time is quickly approaching when economics will play in favour of moving Norman Wells reduced crude, and products, to the more lucrative Prairie market. Current Edmonton price is 21.0 C.P.G. versus N.C.P.C. ex Norman Wells of 10.7 C.P.G.

- If Northern Canada Power Commission's Heavy Fuel Oil price remains unchanged, an additional 1.2 C.P.G. price increase to small consumers will be needed to recover cost related to N.C.P.C.'s portion of the Norman Wells production.

Price Comparison

- Current domestic consumer posted prices at Norman Wells are unreasonably low.

Posted Price Comparison

C.P.G.	Furnace	Esso Gasoline	Diesel Fuel
Norman Wells	22.8	25.3	25.9
Edmonton	33.2	38.9	36.4
Toronto	34.4	40.0	37.7
Norman Wells Price Differential	10.4/12.2	10.6/11.7	10.5/12.8

- From 1969 to 1974 the price of Furnace Fuel Oil has increased by 15.2 C.P.G. in Edmonton while, in the same period, the Norman Wells price has changed by only 4.7 C.P.G.

- The disparity between Norman Wells and Edmonton prices is enlarging rapidly. Furthermore, western Canadian crude is expected to rise in the next 15 months which could,conceivably, widen the gap to more than 20.0 C.P.G. in the near term.

- Prices in the Norman Wells supply area will eventually be based on expensive outside crudes. It is, therefore, crucial to immediately start staging increases and prevent any sudden and drastic price leap which would create severe economic disturbances in the N.W.T. and accentuate residents' dissatisfaction.

- Due to the appreciation of Canadian crude value, the time seems right to initiate corrective measures. Step-wise increases of a significant size should be planned to gradually narrow the disparity.

SUMMARY

- The facts included in this document justify the following actions.

  1. Basic price increases of 4.1 C.P.G. to small consumers on overhead products as of January 1, 1975. Price ramifications due to Edmonton support, freight, and Canada Sales Tax will be additive to this increase.

  2. Heavy Fuel Oil price increase of 5.7 C.P.G. on all 1974 and future shipments.

Nov. 4, 1974

From: W.A. WEST

RECEIVED
NOV 15 1974
G. N. JENKINS

Note from J. A. Armstrong,
November 14 - Norman Wells
Product pricing

I believe Public Affairs are well aware. At implementation you should have back-up press release.

W. A.W.

Att

November 14, 1974

Mr. W.A. West
Room 1825

GNJ
I believe Public Affairs are well aware. At implementation you should have backup press release
W

With reference to your note of Nov. 12 and attachments concerning Norman Wells product pricing --

You may run into a"buzz-saw" public reaction to small consumer price increase of 4.1¢/g. Worth considering as a starting point.

J.A.A.

IMPERIAL OIL LIMITED

MARKETING DEPARTMENT

Vice President & General Manager
WILLIAM A. WEST

Assistant General Managers
CHARLES A. HAYLES
GEORGE N. JENKINS
GEORGE R. WISENER

111 St. Clair Avenue West, Toronto, Canada M5W 1K3

November 22, 1974

RECEIVED
NOV 22 1974
G. N. JENKINS

Mr. W. H. Hopper,
Assistant Deputy Minister,
Energy, Mines & Resources,
588 Booth Street,
OTTAWA, Ontario
K1A OH4

Dear Mr. Hopper,

I am sorry for the oversight in not enclosing the attachment to my letter of November 11th, which was copy of my letter to The Honourable Judd Buchanan, dated November 4 with cost documentation, which is now enclosed.

Very truly yours,

W. West

WAW:s
Att.

b.c.c. Mr. G. N. Jenkins
Mr. J. A. Lefebvre

(ESSO)

I M P E R I A L   O I L   L I M I T E D

MARKETING DEPARTMENT

Vice President & General Manager
WILLIAM A. WEST

Assistant General Managers
CHARLES A. HAYLES
GEORGE N. JENKINS
GEORGE R. WISENER

111 St. Clair Avenue West, Toronto, Canada M5W 1K3

November 11, 1974.

Mr. W. H. Hopper,
Assistant Deputy Minister,
Energy, Mines & Resources,
588 Booth Street,
OTTAWA, Ontario,
K1A 0H4.

Dear Mr. Hopper:

Recently we reviewed our 1974 Arctic programs and concluded that we should bring to your attention implemented and proposed actions affecting Norman Wells product pricing.

Imperial manages a crude oil production and refinery operation at Norman Wells in which the Federal Government is a one third partner on the crude production side. The governing agreement, of July 21, 1944, between Her Majesty the Queen in right of Canada and Imperial sets out the legal basis on which the Government controls prices of products derived from Norman Wells crude. As a result, Imperial cannot vary product prices without submitting recommended changes to the Minister of the Department of Indian and Northern Affairs for approval.

From time to time negotiations between Imperial and the Government have ended in modest price changes for Norman Wells production.

In 1972, because of an unreasonably low level of return on fixed capital investment, Imperial requested a two-price system for products from the proven area of the Norman Wells field. The base price then in place at the 19.0 C.P.G. level for distillate plus a nominal adjustment of 2.0 C.P.G. became the 1973 accepted price ceiling for "small consumers" defined as accounts buying products in quantities less than 10,000 gallons. A higher price, compelled and limited by going Edmonton net market prices, plus bridging costs to point of sale, was approved for industrial users purchasing product in excess of 10,000 gallons.

Cont'd.....

Mr. W.H. Hopper,
Assistant Deputy Minister,
Energy, Mines & Resources.

November 11, 1974.

The described two-tier pricing structure was accepted by the Ministry on March 16, 1973, with the proviso that prices for industrial customers be instituted in approximately equal steps over a two year period. Due to the size of the industrial increases (12.3 C.P.G. to 28.3 C.P.G.), the implementation period was later extended by one year.

The above guidelines sanctioned by the Department of Indian and Northern Affairs governed our 1974 price proposal to the Minister which resulted in an approved increase, implemented in June, of 1.0 C.P.G. to the "small consumer" market segment and industrial price changes ranging from 6.8 C.P.G. to 11.0 C.P.G., depending on product and location. Because the Edmonton prices advanced so rapidly in 1974, we voluntarily extended the industrial price phase-in period by an additional year, postponing price parity with Edmonton plus bridging until 1976.

Imperial is currently negotiating with the Department of Indian and Northern Affairs for a 5.7 C.P.G. price adjustment on Northern Canada Power Commission's Heavy Fuel Oil for the year 1974. The current price, pegged at 10.7 C.P.G. since June 1973, is unrealistic and is not covering its fair share of the Norman Wells operation and investment cost.

In addition, discussions are underway with the Ministry to establish the 1975 pricing basis for "small consumers". Imperial is soliciting an increase of 4.1 C.P.G. plus freight and Canada Sales Tax adjustments as, and if, required. Another consideration will be the probable Edmonton product support needed to meet Norman Wells distillate shortfall in the "small consumers" growing market segment which is still buying Furnace Fuel Oil F.O.B. Norman Wells, at 22.8 C.P.G.

The described pricing actions, complying with E.M. & R.'s guidelines, will eventually bring prices in the Norman Wells supply area to a level which will allow Imperial to make a fair and reasonable return on its investment and provide the necessary incentive to maintain a high quality of service and supply security for Northern communities.

Cost documentation provided to the Department of Indian and Northern Affairs for the discussed future price moves is enclosed.

Yours very truly,

WAW/jd

W. A. West.